SEA OF DEBT: CHINA'S ECONOMIC AND STRATEGIC EXPANSION IN THE INDIAN OCEAN

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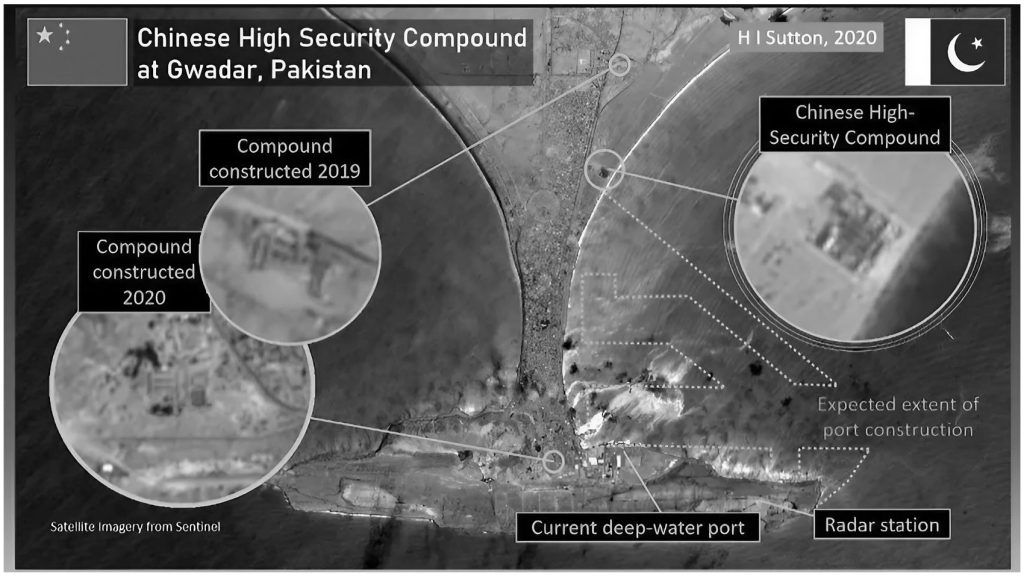
China's approach to the Indian Ocean region has been marked by the strategy often referred to as 'debt trap' diplomacy. This strategy involves extending substantial financial assistance and infrastructure projects to countries within the Indian Ocean sphere, with the underlying motive of fostering economic dependence. While these initiatives aim to bolster regional connectivity and development, concerns have been raised about the potential long-term consequences of such debt accumulation. This article delves into the intricacies of China's 'debt trap' diplomacy in the Indian Ocean region, exploring its implications on geopolitics, economic stability, and the overall balance of power in the area.

Pakistan

China's strategy in the Indian Ocean is notably characterised by its 'debt-trap' diplomacy, particularly evident in its dealings with Pakistan. China has successfully leveraged its projects through the Belt and Road Initiative to gain strategic advantages in the region. In a clandestine move back in December 2018, officials from Pakistan and China reportedly finalised plans to expand Pakistan's production of Chinese military aircraft, weapons, and other hardware. Analysts point out that these military projects are part of the Belt and Road Initiative to secure strategic concessions from Pakistan. The recent satellite images[1] support these

Figure 1: Chinese High-security Compound at Northern end of Gwadar Port Extension



Courtesy: H I Sutton (Imagery - Sentinel Hub)

[1] H. I. Sutton, "China's New High-Security Compound In Pakistan May Indicate Naval Plans," Forbes, accessed August 30, 2023, https://www.forbes.com/sites/hisutton/2020/06/02/chinas-new-high-security-compound-in-pakistan-may-indicate-naval-plans/.

observations, which display clear evidence of anti-vehicle berms, protective fencing, watch stations, and elevated lookout towers, all hinting at the potential development of a submarine docking facility.

As part of the China-Pakistan Economic Corridor, Beijing patronises Pakistan's military modernisation efforts, which encompass the construction of Type 054A Jiangkai II-class frigates and the plans to build eight Yuan-class submarines. It was reported in March 2023 that the PLAN is considering deploying Chinese naval ships and marines to Gwadar to protect Pakistan's maritime infrastructure[2]. The strengthening of security measures at the Chinese installations could suggest a hidden military purpose for the port, similar to China's clandestine efforts to militarise its port infrastructure in the UAE. It might also be a reaction to the unstable conditions in Balochistan, an area experiencing a renewed wave of insurgency and acts of terrorism against the state of Pakistan and its most trusted ally, China.

Sri Lanka

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China has been trying to strengthen its economic grip on South Asia, and Sri Lanka is a prime example of this strategy in action. China Merchant Ports Holdings Ltd. (CMPorts) has leased 70 per cent of the port's assets in Hambantota for the next 99 years. Sri Lanka's inability to pay back debts from China's EXIM Bank, which had financed the port's original construction, led to the transaction. Many observers believe China's acquisition of the port is more strategic rather than commercial[3]. The Chinese firm CMPorts owns most of the Hambantota International Port stock, so it is imperative that the facility will be used as a supply base for future PLAN deployments. By all appearances, China's gift of a warship (a Type-53 frigate) to Sri Lanka in June 2019 was meant to establish a Chinese naval presence on the island nation. Ultimately, Hambantota may become a commercial/military complex that serves as an outpost to replenish and refuel Chinese Naval ships and submarines[4] . One such example is the docking of the Chinese spy ship Yuan Wang-5 in Sri Lanka in August 2022, which caused alarm in India and the West[5].

Maldives

Despite President Ibrahim Solih's efforts to roll back the agreements made with China under the Yameen administration, the spread of Chinese influence in the Maldives continues unabated. Chinese firms are still actively participating in major projects across the island nation. Male has made little headway in reducing its burgeoning debt to China, which includes a massive $200 million obligation stemming from the construction of the "friendship" bridge.

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[2] "China Could Project Military Power from Pakistan's Gwadar Port," *The Economic Times*, March 28, 2023, https://economictimes.indiatimes.com/news/defence/china-could-project-military-power-from-pakistans-gwadar-port/articleshow/99055468.cms?from=mdr.

[3] Chulanee Attanayake, "India's Answer to China's Ports in Sri Lanka | Lowy Institute," The Interpreter, November 9, 2021, https://www.lowyinstitute.org/the-interpreter/india-s-answer-china-s-ports-sri-lanka.

[4] Ken Moriyasu and Kiran Sharma, "Indian Ocean Rivalry: China's Naval Maneuvers Irk New Delhi," Nikkei Asia, September 27, 2022, https://asia.nikkei.com/Spotlight/Asia-Insight/Indian-Ocean-rivalry-China-s-naval-maneuvers-irk-New-Delhi.

[5] Lauren Frayer, "Why a Chinese Ship's Arrival in Sri Lanka Has Caused Alarm in India and the West," *NPR*, August 19, 2022, sec. World, https://www.npr.org/2022/08/19/1118113095/sri-lanka-china-ship-hambantota-port.

The 'friendship' bridge connects the capital, Male, to the airport island. The finance to build this bridge came from China as a loan. This has led to concerns about the Maldives' growing debt burden to China. The country's total debt is estimated at around $5 billion, and more than half is owed to China. This has raised fears that the Maldives could be trapped in a

Figure 3: Maldives-China Friendship Bridge linking Capital Malé to International Airport



Courtesy: Simon Mundy

Chinese debt trap similar to other countries in the region, such as Sri Lanka and Laos.

In addition to the Friendship Bridge, China has financed other major infrastructure projects in the Maldives, such as the Velana International Airport and the Hulhumale City Development Project. These projects have helped boost the Maldives' economy but have also increased the country's debt burden. The Maldives government has said it is committed to repaying its debts to China. However, given its limited financial resources, it is unclear how the country will do this. China's influence in the Maldives continues to expand, as recent satellite images reveal extensive construction work on Feydhoo Finolhu. This small island has been leased to a Chinese company and is relatively close to the capital, Male. In January 2023, Hong Kong Aerospace Technology Group, a leading Chinese firm, inked a monumental $1 billion deal with the Djiboutian government. The agreement paves the way for constructing an advanced rocket launch facility in Obock, a small port town in the country's northern region, as part of a broader infrastructure development plan.

Meanwhile, China has also resorted to browbeat political leadership deemed unfriendly to China[6]. For example, China's Exim Bank has called on the Maldivian government to settle an overdue payment of $10 million, a portion of the total $127 million loan they had received.

Figure 4: Chinese projects along coastal Iran



Iran

Similarly, China has pledged to invest heavily in strategic areas of the Iranian economy. As per an 18-page draft of a comprehensive bilateral agreement leaked and published by the New York Times in July 2020[7], China has committed to investing a massive $400 billion in Iran's oil, gas, and infrastructure sectors. In return, Iran will provide a guaranteed gasoline supply to China for the next 25 years. Numerous infrastructure projects along Iran's Gulf coast are about to be initiated by Chinese construction companies. Chinese initiatives have a broad reach, extending from the free-trade zones in Abadan, a city located on the eastern bank of the Sha' Al-Arab River, to the island of Qeshm. Another notable Chinese presence is at Jask. Bunder-e-Jask is a crucial hub for oil production and storage, just outside the Strait of Hormuz and a mere 250 miles from Gwadar. Given its strategic location, even a minimal naval presence in Jask would significantly strengthen China's influence in the region. This could lead to collaborative military training and exercises involving Iran, China, and Pakistan. The build-up of maritime infrastructure along the coast of Iran and Pakistan suggests a plan to control the sea lanes of the Arabian Sea and the northern Indian Ocean.

[6] N. Sathiya Moorthy, "China Asks Maldives to Pay up 'Private Loan', an Eye-Opener for All Debtor-Nations?," ORF, accessed August 30, 2023, https://www.orfonline.org/expert-speak/china-asks-maldives-pay-up-private-loan-eye-opener-all-debtor-nations/.

[7] Jeffrey Payne, "A China-Iran Bilateral Deal: Costs All Around," Lowy Institute, September 2, 2020, https://www.lowyinstitute.org/the-interpreter/china-iran-bilateral-deal-costs-all-around.

Myanmar and Bangladesh

As China continues to develop deep-sea ports in Payra, Bangladesh, and Kyaukpyu, Myanmar, concerns are rising in New Delhi about a potential Chinese 'encirclement strategy.' While Chinese experts argue that the primary goal is simply to enhance trade and minimise risks to Sea Lines of Communication (SLOCs) in the Indian Ocean, Indian analysts are steadfast in their belief that China's Belt and Road Initiative (BRI) projects aim to surveil the activities of Indian naval vessels and provide easier access for Chinese ships and submarines in the Indian Ocean Region[8].

Intelligence Collection

One of the objectives China strives to achieve through BRI in the IOR is gathering intelligence for maritime operations against key adversaries. While intelligence operations necessarily remain covert, their various manifestations can be reasonably predicted. The most substantial and continuous type of intelligence collection is in the domain of maritime tactical and operational intelligence that might directly support PLAN activities in theatre. The PLA Navy, through its submarine ops, might have already charted the important underwater hydrographic features in the Indian Ocean, potentially to assess the vulnerabilities of undersea data communication cables[9]. China also has the option to use civilian vessels, such as fishing boats anchored in ports developed through the Belt and Road Initiative (BRI), for data collection purposes[10]. The waters near the Andaman and Nicobar Islands serve as a critical maritime bottleneck. In 2019, a Chinese civilian research vessel, Shiyan 1, was evicted from India's Exclusive Economic Zone (EEZ) in the A&N islands as her movement was found to be highly anomalous. The Shiyan 1 collected sensitive oceanographic data about the sea surrounding the A&N group of islands[11].

PLAN has been covertly gathering essential information about the physical conditions in the Indian Ocean Region (IOR), as well as intelligence on the operational tactics of the United States Navy and the Indian Navy, through recent deployments of unmanned underwater vehicles (UUVs) [12]. This information is likely complemented by other region-specific PLA intelligence efforts, such as the occasional use of ESM ships like the Type 815 warships that are armed to capture electronic signatures of ships and aircraft in the Indian Ocean.

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[8] Prakash Panneerselvam, "Maritime Component of China–Pakistan Economic Corridor (CPEC): India–China Competition in the Arabian Sea," *Maritime Affairs: Journal of the National Maritime Foundation of India* 13, no. 2 (July 3, 2017): 37–49, https://doi.org/10.1080/09733159.2017.1412577.

[9] Iskander Rehman, "137The Subsurface Dimension of Sino-Indian Maritime Rivalry," in *India and China at Sea: Competition for Naval Dominance in the Indian Ocean*, ed. David Brewster (Oxford University Press, 2018), 0, https://doi.org/10.1093/oso/9780199479337.003.0009.

[10] Pooja Bhatt, "China's Gray Zone Tactics in the Indian Ocean – South Asian Voices," South Asian Voices, March 19, 2020, https://web.archive.org/web/20200507145356/https://southasianvoices.org/chinas-gray-zone-tactics-in-the-indian-ocean/.

[11] Ryan D. Martinson and Peter A. Dutton, "China Maritime Report No. 3: China's Distant-Ocean Survey China Maritime Report No. 3: China's Distant-Ocean Survey Activities: Implications for U.S. National Security Activities: Implications for U.S. National Security" (Rhode Island: U.S. Naval War College U.S. Naval War College, November 2018), https://digital-commons.usnwc.edu/cgi/viewcontent.cgi?article=1002&context=cmsi-maritime-reports.

[12] Kelvin Wong, "China's Latest Haiyi Underwater Gliders Complete Indian Ocean Deployment," Janes Defence News, March 23, 2020, https://www.janes.com/defence-news/news-detail/chinas-latest-haiyi-underwater-gliders-complete-indian-ocean-deployment.

Additionally, Yuan Wang class satellite and ICBM tracking ships are also being deployed regularly. One was docked at Hambantota in August 2022, creating consternation in India[13].

Not a Walk in Park

Chinese Indian Ocean strategy through debt-trap diplomacy is not having smooth sailing. There are many challenges that the Chinese have to wade through; for example, many Sri Lankans are concerned about the growing Chinese influence in the country. They worry that China is using its economic power to exert political influence, which could eventually lead to Sri Lanka becoming a Chinese puppet state. There have been violent protests against the Chinese presence in Sri Lanka and the Hambantota Port project[14]. In 2021, protests were against constructing a Chinese-funded port in the town of Mannar. The protesters argued that the port would damage the environment and not benefit the local community. In 2022, due to security apprehensions raised by New Delhi, the Rajapaksa government put an end to Chinese wind and solar energy projects on islands situated in the Palk Strait, which lies between India and Sri Lanka. The cessation of these projects was subsequently verified by China's embassy in Colombo through social media posts[15]. Some Sri Lankan politicians have accused China of corruption. In 2022, a former Sri Lankan minister accused China of paying Sri Lankan politicians bribes to secure deals[16]. These allegations have not been proven, but they have damaged the reputation of China in Sri Lanka.

Traditional rivals to China have been actively trying to stifle the Chinese BRI initiative. Former US Secretary of State Pompeo had publicly mentioned that the US would fight China's 'empire' of 'bribes'[17]. In March 2023, the Indian government announced it would provide $1 Sri Lanka $1 billion in financial assistance. The assistance is intended to help Sri Lanka repay its debt to China and to avoid a debt default[18]. This was immediately followed by the Sri Lankan government's announcement that it would be seeking to renegotiate the terms of its $8 billion debt to China[19], which was incurred as part of the construction of the Hambantota port, and the Sri Lankan government has been struggling to repay it.

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[13] Yvette Tan, "Chinese 'spy Ship' Yuan Wang 5 Docks in Sri Lanka despite Indian Concern," BBC News, August 16, 2022, https://www.bbc.com/news/world-asia-62558767.

[14] "Protest over Hambantota Port Deal Turns Violent," News, Al Jazeera, January 7, 2017, https://www.aljazeera.com/economy/2017/1/7/protest-over-hambantota-port-deal-turns-violent.

[15] "Gautam Adani Lands in the Middle of a India-China Fight," *The Economic Times*, November 11, 2022, https://economictimes.indiatimes.com/news/india/gautam-adani-lands-in-the-middle-of-a-india-china-fight/articleshow/95437602.cms?from=mdr.

[16] Meera Srinivasan, "Dragging Debt Talks in Sri Lanka Put Spotlight on Chinese Loans," *The Hindu*, December 1, 2022, sec. World, https://www.thehindu.com/news/international/dragging-debt-talks-in-sri-lanka-put-spotlight-on-chinese-loans/article66210618.ece.

[17] "Pompeo Says US to Fight China 'empire' of 'Bribes,'" *Energy Daily*, October 26, 2018, http://www.energy-daily.com/reports/Pompeo_says_US_to_fight_China_empire_of_bribes_999.html.

[18] "India Extends $1bn Credit Line for Sri Lanka by a Year," News, Al Jazeera, May 9, 2023, https://www.aljazeera.com/news/2023/5/9/india-extends-1bn-credit-line-for-sri-lanka-by-a-year.

[19] Meera Srinivasan, "China Reiterates Support for Sri Lanka's Debt Relief Ahead of Crucial IMF Review," BusinessLine, August 17, 2023, https://www.thehindubusinessline.com/news/world/china-reiterates-support-for-sri-lankas-debt-relief-ahead-of-crucial-imf-review/article67206761.ece.

Numerous ethnic and religious communities in Pakistan face political neglect and apathy from the government. This is especially true in the restive province of Balochistan, where locals often refrain from expressing their grievances against Islamabad and Rawalpindi due to fear of harsh reprisals. However, a notable exception occurred in November 2021. The 'Gwadar Ko Haq Do' (Give Gwadar its Rights) movement mobilised tens of thousands of people—women, men, and children—to march through the main streets of Gwadar, a city that

Figure 5: '*Gwadar Ko Haq Do'* (Give Gwadar its rights) movement



Courtesy: mmnews

hosts the crown jewel of the China-Pakistan Economic Corridor (CPEC), the Gwadar port. The protesters openly chanted slogans against both the Chinese and Pakistani governments[20].

There are signs that resentment at the Belt and Road Initiative is growing across the country. In July 2021, a suicide attacker from the Balochistan Liberation Army drove a vehicle filled with explosives into a convoy. The convoy was en route to work on the Dasu Dam, another key project under the China-Pakistan Economic Corridor (CPEC). The attack resulted in the death of nine Chinese workers. Apart from Balooch, there are other ethnic groups in Pakistan, such as Pashtuns, who are against China and the China-Pakistan Economic Corridor. The Pakistani Taliban carried out a suicide bombing in April 2021 in Quetta, appearing to target the Chinese ambassador to Pakistan, Nong Rong, who escaped unhurt, but five others were killed[21].

Throughout Abdulla Yameen's tenure as president from 2013 to 2018, Beijing enjoyed a free hand in the Maldives. However, there is a hint of the changing tide; the $1.4 billion loan agreement with China to build a new airport is being criticised for being too large and for the lack of transparency surrounding the project. In a noteworthy development, the present Solih administration has reversed the land law amendments made by former President Yameen,

[20] Ali Abbas, "What Is 'Gwadar Ko Haq Do' Movement Led by Maulana Hidayat-Ur-Rehman?," *MM News* (blog), December 11, 2021, https://mmnews.tv/what-is-gwadar-ko-haq-do-movement-led-by-maulana-hidayat-ur-rehman/.

[21] "Pakistan Hotel Bomb: Deadly Blast Hits Luxury Venue in Quetta," *BBC News*, April 21, 2021, sec. Asia, https://www.bbc.com/news/world-asia-56834937.

allowing Chinese nationals to purchase islands. Additionally, the 2017 free trade agreement with China has been put on hold, indicating a shift in policy focus towards protecting national interests[22].

Implications on Geopolitics, Economic Stability, and Balance of Power

Geopolitics

An expanded Chinese presence in the Indian Ocean could alter the geopolitical landscape significantly. This could lead to heightened tensions with India and draw the attention of other powers like the United States and Japan, interested in maintaining free navigation and overflight in the area. Some examples of how expanding Chinese presence subverts the geopolitical landscape are enumerated below.

South China Sea

- Nine-Dash Line - China asserts sovereignty over nearly all of the South China Sea, based on the nine-dash line., a claim that conflicts with those of several Southeast Asian nations. An international tribunal has rejected this claim, but the Chinese navy still enforces it. The Exclusive Economic Zone (EEZ) that China lays claim to is believed to contain around 11 billion barrels of untapped oil and approximately 190 trillion cubic feet of natural gas. China's broad assertions of territorial rights over the sea have sparked tensions with other competing claimants, including Brunei, Indonesia, Malaysia, the Philippines, Taiwan, and Vietnam. Further, the area is a critical waterway for global trade, and China's actions have led to concerns about freedom of navigation.
- Artificial Islands - China has built artificial islands on reefs in the South China Sea, complete with military installations. These actions have been seen as an attempt to bolster its territorial claims and have led to tension with neighbouring countries and the US.
- US Freedom of Navigation Operations (FONOPs) - The US Navy frequently conducts FONOPs in the South China Sea to challenge China's territorial claims. These operations can lead to close encounters between US and Chinese vessels, increasing the risk of military conflict.

Economic Stability

Countries unable to repay Chinese loans might find themselves forced to lease or sell strategic assets, potentially jeopardising their economic sovereignty. This could result in long-term economic instability in the region. Apart from taking hold of Hambantota and Gwadar ports, some more illustrative examples where China has been able to obtain strategic assets through lease or transfers are:

- In December 2020, the Lao government had to cede majority control of its national electric grid, the Electricite du Laos Transmission Company Limited, to a Chinese

[22] Nirupama Subramanian, "The Maldives Churn in the Indian Ocean," The New Indian Express, September 13, 2023, https://www.newindianexpress.com/opinions/2023/sep/13/the-maldives-churn-in-the-indian-ocean-2614210.html.

company due to its inability to repay Chinese loans[23]. Further, in 2022, Laos was forced to hand over the management of its national airline to China after it defaulted on its loans[24].

- Zambia has borrowed $6.7 billion heavily from China in recent years to fund infrastructure projects. In 2021, Zambia defaulted on its debt and was forced to negotiate with China. One of the options on the table is ceding control of its national electricity company, ZESCO[25].
- Montenegro's Port of Bar and Tajikistan's 1,000 square kilometres land swap.

Balance of Power

If China gains military and economic footholds in key locations around the Indian Ocean, it could lead to a substantial shift in the balance of power in the region. This might trigger an arms race or encourage other nations to seek counterbalancing alliances. If there is one thing that China respects, it is power. Throughout history, whenever there was a tilt in the balance of power towards China, it has resulted in China grabbing land, islands and assets. The reduction of US military presence in the South China Sea has seen China take control of Scarborough Shoal in 2012. Spratly Islands, Fiery Cross Reef, Subi Reef, and Mischief Reef are examples where China has undertaken significant reclamation activities and built military installations whenever there was a let-up in US Navy's Freedom of Navigation Operations (FONOPs) in the area.

Conclusion

China's expanding footprint in the Indian Ocean Region (IOR) through its 'debt-trap' diplomacy is a multi-faceted strategy that has far-reaching implications for geopolitics, economic stability, and the balance of power in the region. While the Belt and Road Initiative (BRI) is often touted as a development and connectivity project, the geopolitical undertones are hard to ignore. From Pakistan to Sri Lanka, the Maldives to Iran, China's economic engagements are closely aligned with its strategic interests, raising concerns among regional and global powers.

The case studies presented in the article reveal a pattern of economic engagement that often leads to strategic footholds, be it ports like Gwadar and Hambantota or critical infrastructure projects in the Maldives and Iran. These developments pose a challenge to the existing geopolitical equilibrium, potentially triggering an arms race and fostering new alliances aimed at counterbalancing China's growing influence.

Moreover, the economic stability of nations entangled in China's debt web is at risk. The inability to repay loans could result in the forfeiture of strategic assets, thereby compromising national sovereignty and long-term economic health. This has already been

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[23] Sebastian Strangio, “Laos Grants 25-Year Power Grid Concession to Chinese-Majority Firm,” News, The Diplomat, March 17, 2021, https://thediplomat.com/2021/03/laos-grants-25-year-power-grid-concession-to-chinese-majority-firm/.

[24] TTR Weekly, “Lao Airline’s Shares up for Sale,” TTR Weekly, June 30, 2022, https://www.ttrweekly.com/site/2022/07/lao-airlines-shares-up-for-sale/.

[25] “Zambia: Request for an Arrangement under the Extended Credit Facility” (Washington, D.C.: International Monetary Fund, September 2022), https://www.imf.org/-/media/Files/Publications/CR/2022/English/1ZMBEA2022001.ashx.

observed in instances like Hambantota in Sri Lanka and could serve as a cautionary tale for other nations.

China's activities also raise questions about the future of free navigation and overflight in critical waterways, from the South China Sea to the Indian Ocean. The aggressive posturing and territorial claims in these regions could lead to heightened tensions and even conflict, disrupting global trade and security dynamics.

However, it's important to note that China's strategy is not without its challenges and pushbacks. From violent protests in Sri Lanka to political changes in the Maldives and growing international scrutiny, China's 'debt-trap' diplomacy is increasingly under the microscope. Countries like India and the United States are stepping up their engagement in the region, offering alternative sources of investment and challenging China's narrative.

In conclusion, China's economic and strategic expansion in the Indian Ocean is a complex and evolving issue that requires close monitoring and a nuanced, multi-pronged response from the international community. While the allure of Chinese investment may be tempting for many developing nations, the long-term implications of such engagements must be carefully considered. As China continues to weave its intricate web of influence across the Indian Ocean, the stakes for regional stability and global balance of power have never been higher.

Will be good to add a paragraph on implictaions on India -