

CHINA FACTOR AS HINDRANCE IN SOUTH ASIAN ECONOMIC DEVELOPMENT

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Abstract: South Asia is fastest growing region of the World. India leads in South Asia while Bangladesh and Maldives are other two emerging economies. Geographical reach and robust economic development made India best friend of all south Asian countries from many decades. But in last decade South Asian countries have faster reach to Beijing than New Delhi. China has shown interest in south Asia and they are doing huge investments in Port, Road & infrastructure development. Many South Asian countries availed loans from China and now it's becoming a challenge for them to repay. Slowly except India all other south Asian countries have started reviewing their relationship and further action to get out of the debt trapped situation from China. China wants to connect South Asia through One belt one road (OBOR, most ambitious dream infrastructure project of Chinese president Xi Jinping) for its economic influence. Sri Lanka and Pakistan are already suffering from heavy debt trapped situation created by China while other south Asian countries should have maintained careful approach while dealing with China. SAARC nations must learn production, export, Savings for their economic development rather than depending upon China debt.

Index terms-hindrane, economies, investment, export, import

I. INTRODUCTION

South Asia is the fastest growing region of the World. India leads South Asia for its greater geographical reach while Bangladesh, Maldives, Pakistan, Sri Lanka, and Nepal plays important role in South Asia Economy. More than couple of countries are running above 7 % of growth rate. Fiscal deficit is the biggest worry to be handled by south Asia. Import is getting stronger than export in most South Asian countries even after depreciation of domestic currencies. Countries like Pakistan, Sri Lanka's international reserves are getting reduced because of higher debt. Many south Asian countries depend upon inward remittances for poverty reduction and foreign reserve. Remittances are increasing particularly in India and Bangladesh. India plays an important role not only in South Asia but also in SAARC (South Asian Association of Regional Cooperation). This organization was officially established during the first summit held in Dhaka, Bangladesh in 1985. Main objective of the association was to consolidate South Asia's economic and geopolitical potential, and promote the welfare of the population of the region. Economically, the region is one of the least integrated in the world, with very low levels of intra-regional trade and investment. India's growth rate has touched 8.2% in the second quarter of FY 2018-19. Bangladesh growth rate has climbed to 7.9% in last financial year while Maldives is expecting 8% of growth rate in FY2018-19 thanks to good growth and investment in tourism. Pakistan growth rate was 5.8% while Sri Lanka is struggling with an expectation to reach 3.9% in FY 2018-19. Both these countries are running under the threat of debt crisis. Nepal is on recovery track post 2015 earthquakes with 6.3% growth while Bhutan and Afghanistan are struggling with lowest growth rate in South Asia.

II. METHODOLOGY

This is an analytical work. The secondary data for the analyses in the study has been collected from various sources. The analysis of articles of newspaper, journals has constituted the core of it. The present study aims at exploring the possibilities and future prospects of economic development among South Asian states as well as China's economic expansion on South Asian economical development.

III. CHINA'S ECONOMIC INFLUENCE ON SOUTH ASIA

After analyzing economic scenario of South Asia, in last decade China's role in South Asia economic development has given a mixed result. No doubt South Asia has benefited for China's vast economic expansion and investment. China seeks to check the dominance of Indian power by building close ties with Pakistan, Bangladesh, Sri Lanka, Nepal and Maldives. Another reason for china's Strategy on South Asia is to increase its presence on Indian Ocean for its easy trade and transportation. Indian Ocean accounts 50% of the world's seaborne container traffic and 70 % of world's petroleum passes through Indian Ocean. That's why China is looking for its presence in the Indian Ocean region which will be comfortable for its trade and export for economic development and easier to check India's movement. China Pakistan economic corridor under One Belt one road (OBOR), most ambitious infrastructure project of Chinese president Xi Jinping) an important step regarding their presence in Indian Ocean region. China is developing Gwadar Port, oil and gas pipelines, road and railway line in Pakistan for this purpose. Projects like One Belt one road can make China a super power economy in future. Like Pakistan, China has concentrated on Bangladesh through exporting cheap products, (mainly cotton and fabrics for Bangladesh garment industry with easy custom clearance. Hence in last 15 years China has given special attention to all South Asian countries and linked all type of economic cooperation.

IV. CHINA'S INFLUENCE AND ITS EFFECT ON SAARC MEMBER STATES

China continues to increase its influence in South Asian Association for Regional Cooperation (SAARC) countries. But India doesn't like the dominance of China on Asia and especially on South Asia (SAARC) members. India is struggling to retain its influence in these countries, while China is keen to increase its influence.

This paper mainly focused on how China's economic influence hampers the regional economic development of SAARC nations. SAARC nations are failing to plan a foreign policy to maintain a balanced relationship with the two Asian giants i.e. India and China. Almost all member nations of SAARC has dependent economically on China which analyzed as follows.

India

India has emerged as Asia's leading hope after China. Economy of India grew at an impressive 8.2% in the first Quarter of 2018-19 with a promising future. Manufacturing, Electricity, Gas, agriculture, Trade, Mining played an important role in Economic development of India in last decade. India is an important neighbor nation to all South Asian Countries except Pakistan. Seeing the importance of India in South Asian countries China is trying to establish its influence in South Asia through Infrastructure development, port development in the form of Loan and other debt facilities. To dominate India's influence in South Asia, China has come forward with the String of pearls/ maritime silk route. China is trying to establish various bases in the Indian Ocean. The aim is to link China with the economies of Southeast and Central Asia by land and middle East and Europe by sea. Beijing has invited India to be part of the one belt one road initiative. India is not in favor of **China's One Belt One Road (OBOR)** or Belt and Road Initiative (BRI) and every time expressed its protest China Pakistan Economic corridor (CPEC) due to concerns about territorial sovereignty. China's engagement with India's neighbors through **One Belt One Road (OBOR)** or Belt and Road Initiative (BRI) threatens India's position in South Asia. To check the dominance of China in South Asia India urgently needs of structural framework to protect its strategies to regain its position as a dominant power in South Asia. India must work with its south Asian partners for an alternative arrangement to Chinas **One Belt One Road (OBOR)** or Belt and Road Initiative (BRI). China impressed all Indian neighbor countries like Nepal, Pakistan; Sri Lanka signified India's inability to offer Substantial development assistance to these countries. These countries were completely dependent on India in the past. Now they are welcoming the presence of another super power named as China. This recent development in the past is great challenge for India to increase more strategic engagement with their neighboring countries. Present Prime Minister of India Sri Narendra Modi understands such mistake done by New Delhi in the past and started working on neighborhood first policy on priority basis. India may think its participation in OBOR One belt one Road which can be used for development of Northeast India and one step towards of Act east policy. But China can be an obstacle in this case. India may face biggest threat from China-Pakistan Economic Corridor (CPEC), which is an integral part of Silk Road Economic Belt (SREB) as the CPEC moves through Pakistan occupied Kashmir. In future China will definitely create an

issue and emerge as a direct party in Kashmir dispute which India don't want. India is already packed with heavy FDI flows and Chinese companies are investing heavily in India.

In short India Understand **One Belt One Road** (OBOR) or Belt and Road Initiative (BRI) will profit only China and cheap Chinese goods can reach every part of the world. World will be connected to China and majority of profit from this will be forwarded to China. Since India's economy is doing well whereas Chinese economy is declining, Beijing is desperate to invest heavily on this project for their future profit and new market accessibility.

Pakistan

Presently Pakistan economy is facing a tough time and future is approaching with many challenges. A definite slowdown can be predicted this fiscal year as country is struggling with economic imbalance. As per State Bank of Pakistan statement Pakistan's external debt and liabilities have soared to a record \$91.8 billion) and IMF reported it may climb up to \$103 billion by June 2019. External debt quantum has started climbing new height from July 2013 onwards due to government's inability to control the situation. Government starts economic cycle by taking bailout package from International monetary fund, International Banks and China. Subsequently these Loans were utilized in unethical and inefficient manner. Again, Government request same IMF, International Banks and friendly nations for another bailout package. Such Loans burden the economy and non-other than the country is the worst sufferer. Pakistan must know the act of avoiding external Loans and depend on its own economy like neighbor country India. For proper economy growth being a developing Nation, you must produce efficiently, export must increase and saving is a must for development of economy. Instead of understanding the seriousness of self-development Pakistan always depend on external debt. Although diplomatic relationship with China was established on the 21st of May 1951 but it has never helped Pakistan's economic development. Recently Pakistan has again approached IMF for bailout as it is struggling to raise money to clear debts. IMF is not comfortable with the request as bailout package may use for debt payment to China. Before any decision on providing further loan to Pakistan, IMF has asked for details of Chinese Liabilities outstanding on government of Pakistan. IMF has instructed Pakistan Govt. to draw up a detailed debt sustainability analysis and it seems like difficult for Pakistan to avail any bailout package from IMF.

Pakistan's PM recently approached their friendly countries like Saudi Arabia and China. Saudi Arabia has offered their investment in China Pakistan Economic Corridor (CPEC) in the form of an oil refinery in Gwadar port while China was silent on providing further loan to Pakistan. It can be a strategy of China to refrain from the tagline used "debt-trap diplomacy" since West always accused China burdening less developed countries under multibillion-dollar debts in the frame of investment in transport, infrastructure and energy development. When the country fails to repay China simply asks to handover the investment done by them. Live example is Srilanka and what happened with Hambantota port. Pakistan already trapped by China in the form of CPEC (China Pakistan Economic Corridor). Not now, in future China is definitely going to approach Pakistan to handover Gwadar port in case Pakistan couldn't able to repay.

Fearing debt trap, Pakistan also wanted to review all BRI contracts. It's a well come move from Pakistan. Concern raised over deals negotiated in such a way that favored China and it's a loss-making project for Pakistan. In response Beijing has agreed upon review of those projects which has not started yet. Pakistan's further actions to recalibrate CPEC (China Pakistan Economic Corridor) are made difficult by its sole dependence on Chinese loans to support its struggling economy. Although in the past Islamabad has turned down Beijing's funding for a US\$14 billion mega-dam project in the Himalayas because of its inability to repay. This was a positive move and they had taken a right decision as failure of debt payment may leads to **Sovereignty** issue and they can't afford to lose mega-dam in the Himalayas. This is the right time for Pakistan to rethink their own strength, their own capabilities to produce, export and save for the brighter debt free economy without depending on China every time.

Bangladesh

Bangladesh is one of the fastest growing economies of 2016 with growth rate of 7.1%. The nation is under transformation phase from low-income to a middle-income economy. Poverty has come down drastically through correct financial inclusion and inclusive growth plan. Increasing access to financial services becoming increasingly important, they have given importance to financial inclusion and the result is paid off through continues GDP growth. They have diversified their economy through focus on ready-made garment industry which provides vast employment and business opportunity. Focus on education is another cause of inclusive growth. Thanks to economic, social, technological and infrastructural improvements, Bangladesh has become a vibrant hub of South Asia and leading with positive vibes. History says China became one of the last countries to recognize independent Bangladesh and India was almost everything for Bangladesh starting from Independence to nation Building. But Situation changed gradually. Economic ties are important aspect of bilateral relations between Bangladesh & China. Presently Beijing is the best trading partner of Dhaka with bilateral trade worth \$10 billion. In 2006 China became the biggest exporter to Bangladesh keeping India in 2nd position. China eyes Bangladesh's 160 million strong markets and Bangladesh is a good outsourcing destination for its manufacturing industries since Bangladesh offer labours in cheap rate. During President Jinping's visit in 2016, China promised to give \$24 billion dollars in economic assistance to Bangladesh primarily as lines of credit for twenty-four projects and convinced Dhaka to join the Belt Road Initiative (BRI). Bangladesh has permitted modernization of Chittagong port and infrastructure development of Dhaka. Latter China pressurised Bangladesh to convert soft loans it had offered during China President Xi Jinping's last visit to commercial credit (which incurred higher interest rates). Bangladesh strictly opposed the move made by China. Bangladesh very well knows higher interest on Chinese loans could push them to a debt trap situation and create obstacle in GDP growth. Bangladesh should carefully examine all Chinese infrastructure investment proposals so that it will never face Srilanka type situation. Bangladesh must consider its old reliable friend India in every aspect while comparing with China. Bangladesh was very particular about their stand and not agreeing to the Chinese conditions on construction of the Sonadia deep-sea port in 2014. Recently Prime Minister Sheikh Hasina announced Padma Bridge construction is now being funded from own resources of the Government of Bangladesh which was to be handed over to a Chinese firm for construction .

Sri Lanka

An island country in South Asia, Following 30 years of civil war that ended in 2009, Country's economy grew at an average 5.8 percent during the period of 2010-2017 with a better promising future. In last 10 years China has been paying serious attention to its diplomatic relation with the island nation. Sri Lanka welcomed Chinese investment in building a port at Hambantota, arms from China for use in its civil war and "dialogue partner" status in the Shanghai Cooperation Organization's Lanka's growing economic engagement with China has generated concern among policymakers. China already provided over \$5 billion in last 40 years and mostly in infrastructure development. China has given billions of dollars to Sri Lanka for improvement of domestic infrastructure. Sri Lanka borrowed \$301 million from China with an interest rate of 6.3% for development of Hambantota port. While interest rates on soft loans from the World Bank and the Asian Development Bank (ADB) are only 0.25–3%, charging higher rate of Interest by China shows clear debt trap mechanism used for acquiring Hambantota port on lease basis. Sri Lanka was not in a position to repay Chinese debt and agreed upon convert its debt into equity and Hambantota port is a clear example of Chinas debt trapped diplomacy. In addition to this Chinese firms have been given permission for operating and managing control of Mattala Airport, built with Chinese loans of \$300-400 million. Sri Lanka's debt trapped Government doesn't have the capability to bear its annual expenses. This indicates Sri Lankan ambitious future dream without a concrete plan. India's southern neighbor has already become debt trap victim of China and need to learn from their mistake. Increasing Chinese Investment in Sri Lankahas provided China with increased leverage in the South Asian region. With increase in investment and flowing of funds from China, time has come Sri Lanka to carefully examine the influence of China before it will be treated as strategic Chinese blueprint for China's colonial control over Lanka.

Nepal

Being a landlocked country between two most fast-growing economies, Nepal always receives dual support from China & India. But a recent study says Nepal has faster reach to Beijing than New Delhi. This is an attempt made by Nepal to reduce its dependence on India. Nepal shares a special relation with India but now it is balancing its foreign policies for both China and India. Nepal is no more dependent on India for using port as China has permitted to access their port. Nepal was among few countries to welcome Chinese Belt and Road Initiative (BRI). China has been investing heavily on Nepalese infrastructure. Recently it has built €300 million police headquarters outside Kathmandu for free. China is making all attempts to put its mark on Nepal which for decades was under India's influence. But Nepal must be careful behind every step of Chinese initiative under BRI. Nepal can't afford to pay the price latter by accepting Chinese loans for financing projects under Belt and Road Initiative (BRI). They must think several times with a serious thought before accepting Loan. Nepal must understand by developing infrastructure shouldn't lead to bankruptcy.

Maldives

Maldives is an independent island country and a developing economy based on tourism, fishing, boat building & repairing. This tropical archipelago always relied on India for its security and trade. But in 2013 after Mr Abdulla Yameen took over as president Maldives began cozying up to China, the world's second-largest economy. They have entered in to a Free trade agreement (FTA) with china on December 8, 2017 during President Abdulla Yameen's four-day visit to Beijing In addition to FTA, Maldives signed MOU to join China's ambitious Belt and Road Initiative (BRI). Maldives is running many infrastructure projects funded by China. Chinese companies were awarded contracts for several infrastructure projects in the Maldives, including the recently inaugurated Sinamale Bridge linking Male to Hulhule Island, and a large housing project on Hulhumale, a suburb that built on reclaimed land. However Free trade agreement with China and the way in which Yameen rushed it through parliament has come in for sharp criticism in Maldives. Yameen government disclosed little about the cost of these projects or the terms of the Chinese loans. According to the Center for Global Development, a Washington D.C. based think-tank; China's loans to the Maldives could be around \$1.3 billion which is more than a quarter of its Gross Domestic Product. Maldivians who are not in favor of FTA with China now suspecting a looming Chinese debt trap. BRI infrastructure projects are coming under fire from local communities. Ex-president Mohamed Nasheed also warned that FTA can be expected to draw Maldives deeper into Chinese debt, giving Beijing "huge leverage" over Maldives, undermining the country's sovereignty and autonomy. However, people from Maldives were not happy with Abdulla Yameen's initiatives for development with China. Opposition candidate Ibrahim Mohamed Solih won the presidential election with 58% of vote indicates reaction from Maldivian citizen. Now Maldives can have a deep thought on every deal with China to be re-negotiated with all aspect to save them from a future probable debt trap mechanism. They must do a solid analysis on their present economic scenario, strength and weakness for a better future of Maldives.

Bhutan

Bhutan a land lock peace country located in Eastern Himalayas otherwise known for its ease of doing business and economic freedom. Tourism plays an important role in economic development while Hydroelectricity export is strength of its economic growth. Bhutan maintains healthy fiscal and trading partnership with India. It is the only country in India's neighborhood that has not joined yet BRI project of China. China has also land border dispute with Bhutan. Now China has started encouraging Bhutan to join Belt and Road Initiative (BRI) and share its development dividend. It's vice foreign minister Kong Xuan you visited Bhutan related to Doklam border dispute and invitation to join "Belt and Road Initiative" project of China. This can be treated as an initiative to enter Bhutan Market which is still tapped by India. Country running with better GDP of 8% must be carefully taking any step of relationship with China. They should carefully observe other countries like Sri Lanka, Maldives, Bangladesh and Pakistan and act accordingly while dealing with China. Beijing has started putting pressure on Thimphu to allow it to open an embassy in Thimphu. Bhutan must think carefully both sides before proceeding for any diplomatic relation with China.

Afghanistan

Afghanistan economy has seen many up and down in last 3 decades. Fortunately, in last decade tremendous economic improvement seen as expatriates of Afghanistan infused good funds to the economy. Still then Afghanistan is treated as one of the least developed country of the World. After end of the Taliban era Afghanistan has become very active in trade and other economic development. China being the biggest investor in Afghanistan eyeing on better rail and road link for further investment. Chinese companies have already expressed interest to invest in Afghanistan. A China based firm has taken 30 years lease for Aynak copper mine situated in Afghanistan with \$3 billion investment. China is very much active in reconstruction of Afghanistan. With signing heavy aid packages, they are giving tough competition to India in Nation building. Afghanistan government should be cautious while signing pact with China.

V.CONCLUSION:

Most of the counties except Afghanistan, Pakistan, Sri Lanka are expected to grow in coming years. Countries like Sri Lanka and Pakistan are already running with huge debt trapped from China and they need to change this trend. Production, Export, Savings and employment are the factors upon which these countries need to work with proper planning and execution. Any bailout package from IMF or other financial countries should be used properly. Then economy can bounce back with a positive direction. As per World Bank prediction Afghanistan is the least economic developed nation with a low expectation of growth by 2020 due to Political imbalance & security concern. On the other hand Pakistan expecting GDP of 4.8% subject to tighter fiscal and monetary policy for reduction of debt. Bangladesh and Maldives are positioning for a better future GDP. Maldives political thought on Chinese investment going to be reviewed as new president will take office on third week of November. On the other hand Bangladesh is trying its best to stand on its own feet without support from China and India. Nepal and Bhutan both landlocked countries have shifted their eyes on China for economic development. Nepal is expecting GDP of 6% while Bhutan looking for 7% GDP increase in next financial year. South Asian region where one fourth world population lives is the least economically integrated regions of the World. Trade and investment remains below its potential because of cross-border conflicts, security issue, political tensions. All South Asian countries imports are more than exports. China's export to these countries increased in good percentage in last 15 to 20 years. China's economy is getting down and being thirsty economic power, it is desperate to seek presence and influence in the Indian Ocean. China has increased its energy supply in Nepal, infrastructure, logistics and roads under CPEC in Pakistan and port & infrastructure development in Sri Lanka. South Indian countries must ensure that they are not going to depend on China in all economic reform so that they may face situations like Sri Lanka. Being majorities of countries are on developing stage they must find their own strength of production, Savings and export. India's initiative in this regard in the name 'Make in India' concept is highly encouraging and other South Asia nations must adopt such initiatives. SAARC Member states should be aware about their regional interest instead of short-term economic benefit of the own nation.

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