

**China's Belt and Road Initiative: Debt Diplomacy or Development Financing?
A Comparative Case Study of Sri Lanka and Pakistan**

Huny Thakkar^{1*}, Edward Mbeleki^{2*}, Mansha Arya^{3*}, Aaditya Dewansh^{4*}, Zintle Kula^{5*}

¹B.A. (Hons.) International Relations, Pandit Deendayal Energy University, Gandhinagar, Gujarat - 382426 India

²Advanced Diploma in Business Management, University Of Johannesburg, Johannesburg, 2092 - South Africa

³LLB, Law Centre 1, Faculty of Law, University of Delhi, New Delhi, Delhi - 110007, India

⁴M.A. (International Relations), South Asian University, New Delhi, Delhi - 110068, India

⁵University of the Free State, Free State - 9301, South Africa

Corresponding author: Huny Thakkar
Email ID: thakkarhuny@gmail.com

Abstract

The Belt and Road Initiative (BRI), launched by China in 2013, has generated sustained debate over whether it functions as a deliberate instrument of debt diplomacy aimed at strategic asset acquisition, or as a development financing mechanism responding to genuine infrastructure deficits in recipient countries. This paper addresses that question through a comparative case study of Sri Lanka and Pakistan: two BRI-engaged South Asian states that share the same creditor yet exhibit structurally distinct outcomes.

Drawing on a three-tier qualitative methodology combining comparative case analysis, historical examination of high-value BRI projects, and content analysis of "debt-trap diplomacy" discourse, we argue that strategic dependency in both cases emerges not from engineered default, but through two distinct pathways: fiscal vulnerability in Sri Lanka and infrastructural entrenchment in Pakistan.

In Sri Lanka, domestic governance failures and aggressive external commercial borrowing produced the conditions for the 2017 Hambantota Port concession, driven by a new government's fiscal desperation rather than predatory Chinese design. In Pakistan, the China-Pakistan Economic Corridor (CPEC) generated long-term institutional lock-in through the sheer scale of energy infrastructure investment and an asymmetric bureaucratic coordination model. Across both cases, local political elites exercised agency in seeking Chinese capital to bypass Western conditionalities, and dependency emerged as a by-product of borrower governance failures and project scale rather than Chinese strategic calculation.

These findings challenge the binary of debt diplomacy versus development financing, offering instead a mechanism-based account of how BRI engagement produces different forms of strategic influence in different political-economic contexts.

Keywords: Belt and Road Initiative, debt diplomacy, strategic dependency, fiscal vulnerability, infrastructure entrenchment

Introduction

In 2013, China launched the Belt and Road Initiative (BRI) with the goal of advancing international cooperation, enhancing connectivity, and expanding global trade to support more integrated economic development (Muzapu et. al, 2018, as cited in Rahman, 2020, p.1). Beyond trade and infrastructure, the trillion-dollar BRI extends into diverse areas such as technology, science, poverty reduction, sustainable development, environmental protection, education, agriculture, cross-border economic cooperation, and tourism (Breuer, 2017; Shahriar, 2019, as cited in Rahman, 2020, p.1).

Although the BRI offers prominent benefits, it has also attracted significant criticism. A central concern is debt sustainability because many participating countries face mounting financial pressures from the loans extended by China (Calabrese, 2025). For those countries, the BRI is seen as a form of “debt-trap diplomacy” which leaves countries exposed to potential coercion and strategic influence from China (Green, 2024). Concerns over opaque project agreements, hidden financing terms, and non-transparent procurement, combined with governance weaknesses and corruption in both China and recipient states, pose serious obstacles to the fair and sustainable implementation of the Belt and Road Initiative (Gelpern et. al, 2021, as cited in Calabrese, 2025).

The debate surrounding China’s BRI and the "debt-trap diplomacy" is crucial because the BRI lies at the intersection of development, foreign policy, and global power relations. This reflects China’s broader effort to reshape the international system in ways that advance its own priorities and values (Ezeanyika et al., 2024). This paper structures a comparative case study of Sri Lanka and Pakistan to explore whether China’s BRI functions primarily as a deliberate instrument of debt diplomacy which is aimed at strategic asset acquisition, or as a development financing mechanism responding to genuine infrastructure deficits. By analysing these two cases, the study reveals the conditions under which BRI engagement produces strategic dependency.

Literature Review

Debt Diplomacy and Development Financing

Jones and Hameiri (2020), in their Chatham House analysis, mount the most sustained empirical challenge to the debt diplomacy thesis, arguing that BRI outcomes are shaped primarily by recipient-country politics, and institutional capacity rather than by Chinese strategic calculation. Their reanalysis of the Hambantota case demonstrates that the lease was driven by a Sri Lankan government desperate for foreign exchange ahead of an electoral cycle, not necessarily by a predatory creditor engineering default by China. The study relocates explanatory power from Chinese design to borrower governance failure, which is a crucial corrective change to Chellaney's framework. However, Jones and Hameiri examine the Sri Lankan case without extending this governance-centred logic to the Pakistan corridor, where the mechanism of dependency operates differently, not through fiscal crisis and asset concession, but through the structural entrenchment that project scale and sectoral breadth produce over time.

BRI and South Asian Geopolitics

Rashid, Ikram, and Naeem (2023) examine China's foreign policy shift in South Asia through the BRI, arguing that the initiative functions as a multi-pronged strategy combining infrastructure investment, economic cooperation, and strategic partnerships to expand Chinese influence and challenge India's traditional regional dominance. The study also traces the Indian Ocean implications of CPEC, Hambantota, and the broader String of Pearls architecture, situating BRI within a neorealist framework of power competition between China, India, and the United States. While the paper offers a comprehensive account of BRI's regional strategic logic, it also treats Sri Lanka and Pakistan as parallel illustrations of a single Chinese grand strategy rather than as structurally distinct cases that are collapsing. This paper argues the causal difference between fiscal vulnerability and infrastructural entrenchment that is analytically decisive for understanding when and how BRI engagement produces strategic dependency.

Politics of the ports

Thilini Kahandawaarachchi in her research study 'Politics of the ports' examines China's growing presence in South Asia particularly its investments in port infrastructure in Pakistan, Sri Lanka, and Bangladesh and has largely focused on China-centric strategic explanations. Prominent theories such as the "String of Pearls" framework interpret these investments as part of China's broader geopolitical strategy to expand its influence across the Indian Ocean and

counter rival powers, especially India and the United States. Another strand of literature highlights Sino-Indian rivalry, suggesting that China's involvement in South Asian ports is aimed at encircling India and gaining strategic leverage in the region.

Debt-Trap Diplomacy": A Constructivist Lens

Deborah Brautigam (2020) looks critically upon the "debt-trap diplomacy" thesis, arguing it functions more as a meme than an empirically grounded strategy. Using case-based evidence, she shows Chinese lending is diverse, negotiated, and often misrepresented in Western discourse. From a constructivist perspective, this label is not an objective reality but a socially constructed narrative shaped by strategic anxieties about China's rise. Meaning here is produced through discourse—policy debates, media framing, and scholarly repetition—rather than inherent in China's actions. Thus, Brautigam reveals that power operates ideationally as well as materially, where dominant narratives shape global perceptions, legitimise policy responses, and structure how international economic behaviour is understood.

Debt Dependency and Sovereignty Concerns

Urooj et al. (2024, p32) argue that, in many ways, the economic ventures of China in the Indo-Pacific region have escalated the level of debt that participating nations are engaged in. More weight has been given to the BRI, which has latched numerous countries into debt traps with China. Using Sri Lanka as an example, the authors argue that the country's debt to China, whilst having an unfavourable impact on the economy, may be evenly detrimental to the politics since the nation may be compelled to make beneficial policies for China. The authors state that, in the case of Hambantota Port, the procedure of debt is flawlessly symbolised by how it effortlessly converts into enduring tactical control, which endangers the country's sovereignty and the permanence of the region.

Research Gap

While numerous studies have examined the benefits and adverse effects of China's Belt and Road initiative on various countries and A lot of research has been done on the debt diplomacy and development financing of China however one of the most important questions remains unanswered if China's belt and road initiative functions as a deliberate instrument of debt diplomacy aimed at strategic acquisition or as a development financial mechanism responding to genuine infrastructure

deficits. Sri Lanka's Hambantota Port and Pakistan's Gwadar Port hold strategic importance to China's BRI initiative and many research papers have used Hambantota Port as proof of the debt trap. Pakistan's China-Pakistan Economic Corridor is treated as a success or failure in isolation. There is little systematic comparison of the mechanisms that produce different forms of dependence.

Hypothesis

This research paper aims to prove that China's Belt and Road initiative does not function as deliberate debt diplomacy but rather as strategic dependency, which emerges through distinct pathways: functional vulnerability in Sri Lanka and infrastructural entrenchment in Pakistan, driven by borrower governance failures and project scale rather than engineered default. It also aims to comparatively analyze the cases of Sri Lanka and Pakistan to identify why the outcomes vary across countries with the same creditor.

Research Methodology

This research paper will employ a multi-model qualitative research methodology to study the geopolitical and geoeconomic dimensions of the Belt and Road Initiative (BRI). The goal is to align with the core research vision of looking beyond the binary of debt diplomacy versus genuine development debate. The methodological framework acknowledges that the BRI is a highly heterogeneous initiative and its outcomes vary significantly by country. It also depends upon the sector impacted and the structure of the debt deal. In order to comprehensively analyse this, our study utilises a three-tier qualitative framework.

First, a Comparative Case Study aims to contrast the structural and financial mechanisms of the BRI against emerging Western connectivity and trade corridor alternatives, specifically the US-led Partnership for Global Infrastructure and Investment (PGII) and the EU's Global Gateway. It will examine the distinct national experience, focusing on how development outcomes are shaped by debt structure and governance.

Following it will be a historical case study of evolution in BRI's high-value investment project in the region, specifically the CPEC and the Hambantota Port in Sri Lanka, looking into the narrative

of Chinese predatory lending against debt requirements as a result of genuine pre-existing domestic fiscal crises. Finally, the study also aims to deconstruct the narrative surrounding the Chinese global financing of BRI and the reactions from critics and analysts alike. Examine the origins and proliferation of the "debt-trap diplomacy" coined by analysts such as Chellaney (2018). through content analysis focusing on the rhetoric surrounding debt structuring opacity to understand how information asymmetry is leveraged to weaponise the global discourse surrounding China's aggressive BRI policy in recipient nations. Our research thus aims to synthesise physical project realities, historical context, and geopolitical narratives to provide a nuanced evaluation of China's contemporary role as a rational global lender.

Analysis and Findings

Structural Features of BRI Loan Agreements

Extant literature and project agreements indicate that the Belt and Road Initiative (BRI) represents a state-led development logic rather than a deliberate, predatory debt-trap. The institutional configuration of the BRI is predominantly managed by China's National Development and Reform Commission (NDRC), a macroeconomic planning agency that integrates China's domestic industrial capacity with overseas cooperation. This structure departs from traditional foreign aid paradigms; rather than providing conditional grant aid, China emphasizes the creation of mutual economic opportunity and the expansion of cross-border markets.

Consequently, BRI loan agreements often lack the strict governance and political conditionalities imposed by Western lenders or Bretton Woods Institutions. However, these loans reflect a distinct commercial rationality. For instance, in the case of Sri Lanka, the Export-Import Bank of China funded the first phase of the Hambantota Port at a relatively high interest rate of 6.3%. In contrast, soft loan interest rates from the World Bank and the Asian Development Bank typically ranged from 0.25% to 3%.

The Fiscal Vulnerability Pathway: Sri Lanka

The strategic dependency observed in Sri Lanka emerged primarily from domestic fiscal mismanagement and governance failures rather than an engineered Chinese acquisition strategy.

Under the leadership of President Mahinda Rajapaksa, Sri Lanka aggressively pursued massive infrastructure projects, relying heavily on foreign commercial loans without adequate feasibility studies. From 2010 to 2015, China provided a \$4.8 billion loan for various projects, including the Hambantota Port, new airports, and highways.

Despite media narratives of a "debt trap," macroeconomic data reveals that Sri Lanka's debt crisis was largely driven by its exposure to international capital markets. By 2017, market borrowings accounted for 39% of the country's external debt, whereas outstanding Chinese loans accounted for only 10.6% (U.S. \$5.5 billion). The eventual 99-year lease of the Hambantota Port was a desperation-led debt-to-equity swap orchestrated by a new Sri Lankan government struggling to service its aggregate external debt, at a time when 95% of government revenue was being consumed by debt servicing. In 2017, the government signed a concession agreement granting a Chinese state-owned enterprise, China

Merchant Port Holdings (CMPort), an 85% share in the Hambantota International Port Group and a 99-year lease over 15,000 acres of land. This transfer of jurisdictional rights represents a "malleable sovereignty" echoing 19th-century international lease agreements, yet it was precipitated by the borrower's fiscal vulnerability.

The Infrastructural Entrenchment Pathway: Pakistan

In contrast to Sri Lanka, Pakistan's strategic dependency on China is characterized by infrastructural entrenchment, primarily facilitated by the China-Pakistan Economic Corridor (CPEC). Pakistan's engagement with the BRI was driven by severe domestic power shortages and a fragmented governance structure. The bureaucratic coordination mechanism for CPEC, led jointly by China's NDRC and Pakistan's Ministry of Planning, Development, and Special Initiatives, enabled the rapid mobilization of capital for "early-harvest" projects.

This vertical coordination allowed for swift execution in sectors aligned with China's domestic industrial policy. By the end of 2024, 14 power generation projects had been completed in Pakistan with a total investment exceeding US \$15 billion, adding nearly 9,000 megawatts of capacity. However, this deep institutional entrenchment has also led to significant limitations. China's top-down, technocratic approach struggled to adapt to Pakistan's political pluralism and regional contestations, resulting in sluggish progress in sectors requiring flexible local engagement, such as the development of Special Economic Zones (SEZs). The sheer scale of infrastructural lock-in binds Pakistan's economic planning intricately to Chinese state agencies

and supply chains, creating a deep structural dependency.

Dynamics of Strategic Dependency: A Synthesis

The comparative analysis of Sri Lanka and Pakistan validates the hypothesis that strategic influence in the Global South accrues to China primarily as a byproduct of commercial self-interest and host-country vulnerabilities, rather than a deliberate predatory design. Just as regional energy infrastructures face a "gridlock" of governance challenges shaped by a confluence of domestic and international dynamics, BRI engagements are shaped by an interdependent matrix of borrower agency and creditor rationality.

In Sri Lanka, this matrix consisted of domestic political ambition, unviable project selection, and high-interest commercial lending, culminating in a fiscal crisis that forced the concession of strategic sovereign assets. In Pakistan, the matrix involves massive energy infrastructure investments that addressed immediate domestic crises but created long-term institutional lock-in, driven by a highly asymmetric bureaucratic coordination model.

In both contexts, local political elites exercised significant agency in securing Chinese capital to bypass the conditionalities of Western lenders, which ultimately backfired due to borrower governance failures. China, operating as a "market-creating state," utilized these opportunities to export its excess industrial capacity and secure critical maritime and overland transit nodes. Consequently, the strategic dependency observed in these cases is not the result of an engineered default mechanism, but rather a complex gridlock of host-state fiscal desperation and deep infrastructural entrenchment.

Discussion: Limitations and Future Scope

Limitations

Several limitations bear on the scope and transferability of this study's conclusions. First, the comparative case study design, while analytically productive for isolating causal mechanisms, restricts generalisability. Sri Lanka and Pakistan are both South Asian states with specific political economies, governance structures, and historical relationships with China; the pathways identified here which are fiscal vulnerability and infrastructural entrenchment which may not map cleanly onto BRI-engaged states in Sub-Saharan Africa, Central Asia, or Southeast Asia,

where the structural conditions of engagement differ considerably.

Second, the study relies primarily on secondary literature and publicly available macroeconomic data. The opacity of BRI loan agreements — a condition noted extensively in the literature, particularly regarding confidentiality clauses and non-disclosure provisions — means that the full terms of individual project agreements in both Sri Lanka and Pakistan remain partially inaccessible to researchers. This limits the precision with which causal claims about debt structuring can be made, and means the paper's findings on the "fiscal vulnerability pathway" in Sri Lanka are necessarily reconstructed from indirect evidence.

Third, the analysis does not account fully for variation within each case over time. Sri Lanka's political landscape shifted substantially between the Rajapaksa and Sirisena governments, and Pakistan's CPEC trajectory has evolved across successive administrations. Treating each case as relatively unified risks flattening significant intra-case variation that could refine the causal logic.

Future Scope

This study opens several productive directions for future research. The most immediate extension would be to test whether the two dependency pathways identified here : fiscal vulnerability and infrastructural entrenchment appear in BRI-engaged states beyond South Asia. A wider comparative study incorporating cases such as Zambia, Ethiopia, or Laos could assess whether these are genuinely generalisable mechanisms or specific to the political economies examined here. Second, future work could investigate the evolution of strategic dependency over time rather than treating it as a static outcome. Both Sri Lanka and Pakistan are in ongoing renegotiation of BRI terms; tracking how borrower leverage shifts after the initial phase of dependency sets in would significantly enrich the causal account developed here.

Third, the paper's findings point toward the importance of domestic institutional capacity as a mediating variable. Future research could productively operationalise governance quality more precisely using indicators such as fiscal transparency, public investment management scores, or procurement reform indices to test whether stronger institutions systematically produce different BRI outcomes, and under what conditions borrower agency meaningfully constrains Chinese influence.

Finally, the gendered and sub-national dimensions of BRI impacts remain largely unexplored in the existing literature. Research on how CPEC or Hambantota-related infrastructure has affected

local communities, labour markets, and regional economies rather than just sovereign-level strategic outcomes that would offer a necessary corrective to the state-centric framing that dominates this debate.

Conclusion

Although China's Belt and Road Initiative was launched to advance international cooperation, enhance connectivity, and expand global trade, it has attracted criticism. By analysing Sri Lanka and Pakistan, this paper explored whether China's BRI functions as a deliberate instrument of debt diplomacy for asset acquisition, or as a development financing mechanism for genuine infrastructure deficits. This study revealed the conditions under which BRI engagement produces strategic dependency.

The initiative reflects a state-led development model that connects China's industrial capacity with overseas projects. Its loans avoid strict political conditions but carry higher commercial interest rates. In Sri Lanka, the fiscal mismanagement and weak governance led to the Hambantota Port concession. In Pakistan, large-scale CPEC projects created long-term institutional dependency. In both cases, local elites requested Chinese financing to evade Western conditionalists, producing dependency through domestic weaknesses.

This study, however, faced limitations, including restricted generalisability, primary reliance on secondary literature and macroeconomic data, and little account for the gradual political and policy shifts. Future research should test whether fiscal vulnerability and infrastructural entrenchment appear beyond South Asia, investigate the evolution of strategic dependency, examine the domestic institutional capacity as a mediating variable, and explore the gendered and sub-national dimensions of BRI.

References

- Ahmed, Z. S., & Haque Sheikh, M. Z. (2021). Impact of China's Belt and Road Initiative on regional stability in South Asia. *Journal of the Indian Ocean Region*, 17(3), 271–288. <https://doi.org/10.1080/19480881.2021.2001985>
- Afraz, N., & Khawar, H. (2019). BRI: Connectivity, trade, investment and politics South Asia. In J. Syed, & Y. Ying (Eds.), *China's Belt and Road Initiative in a Global context* Vol. 1 (pp. 87–119). Cham: Palgrave Macmillan.
- Brautigam, D. (2020). *A critical look at Chinese "debt-trap diplomacy": The rise of ameme*. *Area Development and Policy*, 5(1), 1–14. <https://doi.org/10.1080/23792949.2019.1689828>
- Calabrese, L. (2025, May 27). *The Belt and Road Initiative: What Impact on China and The Global Economy?* Retrieved from Economics Observatory: [https://www.economicsobservatory.com/the-belt-and-road-initiative-what-impact-on-china-and-the-global-economy#:~:text=Despite%20its%20benefits%2C%20the%20BRI,Gelpern%20et%20al%20C%202021\).](https://www.economicsobservatory.com/the-belt-and-road-initiative-what-impact-on-china-and-the-global-economy#:~:text=Despite%20its%20benefits%2C%20the%20BRI,Gelpern%20et%20al%20C%202021).)
- Ezeanyika, S., Oporum, I., Ibekwe, E., & Adigwe, J. (2024). China's Economic Diplomacy and Soft Power Strategy. *Sabinet African Journals*, 202-226.
- Green, M. A. (2024, January 16). *Debt Distress on the Road to "Belt and Road"*. Retrieved from Wilson Center: <https://www.wilsoncenter.org/blog-post/debt-distress-road-belt-and-road#:~:text=The%20Chinese%20Communist%20Party%20has,%20Oceania%20and%20Latin%20America.>
- Han, Z., & Paul, T. V. (2020). China's rise and balance of power politics. *The Chinese Journal of International Politics*, 13(1), 1–26.
- Irshad, M. S., Xin, Q., & Arshad, H. (2015). One Belt and One Road: Does China-Pakistan Economic Corridor benefit for Pakistan's economy? *Journal of Economics and Sustainable Development*, 6(24), 200–207.
- Jabin T. Jacob, "China-Pakistan Relations," *China Report* 46 (3), (2010): 217-229
- Jones, L., & Hameiri, S. (2020, August 19). Debunking the Myth of 'Debt-trap Diplomacy' <https://www.chathamhouse.org/2020/08/debunking-myth-debt-trap-diplomacy>
- Kahandawaarachchi, T. (2015). Politics of ports: China's investments in Pakistan, Sri Lanka & Bangladesh.

- Khetran, M. S. (2015). The potential and prospects of Gwadar port. *Strategic Studies*, 34(4), 70–89.
- Marwah, R., & Ramanayake, S. S. (2021). *China's economic footprint in South and Southeast Asia: A futuristic perspective — Case studies of Pakistan, Sri Lanka, Myanmar and Thailand*. World Scientific.
- Moramudali, U. (2019, May 14). Is Sri Lanka really a victim of China's 'Debt Trap'? Sri Lanka's debt crisis and Chinese loans – separating myth from reality. *The Diplomat*, <https://thediplomat.com/2019/05/is-sri-lanka-really-a-victim-of-chinas-debt-trap/>
- Rahman, Z. U. (2020). A Comprehensive Overview of China's Belt and Road Initiative and Its Implication For The Region and Beyond. *Journal of Public Affairs*, 1-12.
- Rashid, S., Ikram, M., Naeem, W. (2023). China's Foreign Policy Shift in South Asia vis-à-vis Belt and Road Initiative. *INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY: APPLIED BUSINESS AND EDUCATION RESEARCH*, 4(4).
<https://doi.org/http://dx.doi.org/10.11594/ijmaber.04.04.28>
- Urooj, S., Nawaz, A., & Chandio, N. A. (2024, January). Chinese Rise in the Indio-Pacific Region: Debt Trap or Economic Interconnectivity (Case Studies of Pakistan, Sri Lanka, and Myanmar). *Journal of Political Stability Archive*, 2(4), 31-40.
https://www.researchgate.net/publication/387658576_Chinese_Rise_in_the_Indo-Pacific_Region_Debt_Trap_or_Economic_Interconnectivity_Case_Studies_of_Pakistan_Sri_Lanka_and_Myanmar
- Wijayasiri, J., & Senaratne, N. (2018). China's belt and road initiatives (BRI) and Sri Lanka. <https://archivos.juridicas.unam.mx/www/bjv/libros/12/5550/19.pdf>
- Yamada, G., & Palma, S. (2018, March 28). Is China's Belt and Road working? A progress report from eight countries. *Nikkei Asian Review*.
<https://asia.nikkei.com/Spotlight/Cover-Story/Is-China-s-Belt-and-Road-working-A-progress-report-from-eight-countries>
- Zhou, W., & Esteban, M. (2018). Beyond balancing: China's approach towards the belt and road initiative. *Journal of Contemporary China*, 27(112), 487–501.