



Debt Trap Diplomacy: A Focus on China's Influence in Pakistan and Sri Lanka

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Abstract:

This research article explores the growing concerns surrounding China's debt trap diplomacy in its relations with Pakistan and Sri Lanka. By examining China's lending strategies through the Belt and Road Initiative (BRI), this paper highlights the geopolitical and economic motivations behind Chinese investments and loans to these two South Asian nations. The study investigates the challenges Pakistan and Sri Lanka face in meeting debt obligations to China, the subsequent consequences on their sovereignty, governance, and economic stability, as well as the impact on regional power dynamics. Drawing upon financial data, historical debt trends, the paper argues that overreliance on Chinese loans has aggravated existing financial vulnerabilities, thereby leading to potential loss of political autonomy and economic instability. The paper further explores the role of international institutions, such as the IMF, World Bank, and ADB, in providing viable alternatives and strategies to mitigate the risks of falling into a debt trap. The findings suggest that without stronger governance reforms, greater financial transparency, and reduced dependence on China, both nations will face continued economic and political challenges in the coming decades.

Keywords: Debt Trap Diplomacy, China, Pakistan, Sri Lanka, Belt and Road Initiative (BRI), Sovereignty, Governance, Economic Stability, Debt Restructuring, Geopolitical Influence, Financial Crisis, International Institutions, IMF, World Bank, Debt Management, Regional Power Dynamics.

Introduction:

China's growing economic influence through its Belt and Road Initiative (BRI) has sparked significant debate regarding the concept of debt trap diplomacy in the context of Pakistan and Sri Lanka. While China promotes its lending practices as a means of fostering infrastructure development and economic growth however these loans come with opaque terms high-interest rates, and unsustainable debt burdens, leading to the risk of economic dependence and political concessions. Both Pakistan and Sri Lanka have become major recipients of Chinese loans and investments, with projects such as Gwadar Port in Pakistan and Hambantota Port in Sri Lanka serving as critical case studies of how excessive borrowing can lead to financial distress. This research paper examines the strategic motivations behind China's financial engagements, the economic challenges these countries face in servicing their debts, and the potential consequences on their sovereignty and governance. Further, the paper explores how international financial institutions such as the International Monetary Fund (IMF), World Bank, and Asian Development Bank (ADB) can play a role in mitigating these risks and providing sustainable alternatives. By analysing financial data, policy frameworks, and geopolitical strategies, this paper aims to provide a comprehensive understanding of how China's lending practices are reshaping economic and political landscapes in South Asia.

Methodology:

This research employs a qualitative and analytical approach to examine the concept of debt trap diplomacy in the context of China's financial engagements with Pakistan and Sri Lanka. The study relies on secondary data sources, including official government reports, policy documents, financial statements, and publications from international institutions such as the International Monetary Fund (IMF), World Bank, and Asian Development Bank (ADB). Further, academic articles, case studies, and media reports are analysed to understand the economic, geopolitical, and strategic implications of Chinese lending. A comparative case study method is used to assess the similarities and differences in how Pakistan and Sri Lanka have handled their Chinese debts, the challenges they face, and the consequences on their sovereignty and governance. The research also incorporates policy analysis to evaluate the effectiveness of measures taken by both nations and the role of international financial institutions in providing alternatives. By synthesising qualitative insights with economic data, the paper aims to offer a comprehensive assessment of the long-term risks and potential solutions associated with China's debt-driven diplomacy in South Asia.

Objectives:

The primary objective of this research is to critically analyse China's debt trap diplomacy in the context of its financial engagements with Pakistan and Sri Lanka. This study aims to investigate the economic, geopolitical, and strategic motives behind China's lending practices under the Belt and Road Initiative (BRI), and assess their impact on the sovereignty, governance, and financial stability of the recipient nations. The research paper seeks to evaluate the challenges Pakistan and Sri Lanka face in meeting their debt obligations, the extent to which Chinese loans have contributed to economic distress, and the broader implications for regional power dynamics. Another key objective is to explore the role of international financial institutions, such as the IMF, World Bank, and ADB, in offering viable alternatives to Chinese financing and supporting debt sustainability. Finally, the paper aims to propose policy recommendations that could help these nations mitigate debt risks, enhance financial transparency, and strengthen economic resilience, ensuring long-term economic sovereignty and stability.

Understanding Debt Trap Diplomacy:

Debt trap diplomacy refers to a situation where a creditor country extends large-scale loans to another nation, often for infrastructure projects, with terms that may lead to excessive financial dependence. If the borrowing country struggles to repay, the creditor may leverage the debt to gain strategic and economic influence. China's lending strategy in Pakistan and Sri Lanka under the Belt and Road Initiative (BRI) has led to growing concerns that these countries are caught in such a trap. While China officially presents these investments as mutually beneficial, it is argued that the financial burden placed on borrowing nations, coupled with Beijing's control over key assets, suggests a pattern of economic coercion.

Pakistan has been a major recipient of Chinese loans through the China-Pakistan Economic Corridor (CPEC), a \$62 billion infrastructure initiative aimed at enhancing trade connectivity between China and Pakistan.¹ CPEC includes highways, railways, energy projects, and the expansion of the Gwadar Port, making Pakistan a critical link in China's global trade strategy. However, the financing of these projects has resulted in a sharp increase in Pakistan's external debt. Pakistan owed China approximately \$30 billion making Beijing its largest bilateral creditor.² Unlike concessional loans provided by global financial institutions like the International Monetary Fund (IMF) or World Bank (IBRD), many of these Chinese loans come with higher interest rates and shorter repayment periods. As a result, Pakistan has faced balance of payments crises multiple times, requiring repeated IMF bailouts to manage its financial obligations. The heavy reliance on Chinese credit, combined with Pakistan's low foreign exchange reserves and high trade deficit, has made debt repayment increasingly difficult, raising fears that Islamabad may have to make strategic concessions to Beijing in the future.³ Further, concerns over lack of transparency in CPEC agreements have fueled suspicions that China's financial engagements are not purely developmental but are designed to enhance its geopolitical influence. Critics argue that China's control over key projects such as Gwadar Port could potentially give Beijing a military and economic foothold in the Indian Ocean region, escalating geopolitical tensions with India and the West.

Sri Lanka provides a stark example of the risks associated with Chinese lending. Over the past two decades, Sri Lanka has borrowed heavily from China to finance infrastructure projects, many of which have failed to generate expected economic returns. One of the most controversial projects is the Hambantota Port constructed with high-interest Chinese loans despite feasibility studies warning of its limited commercial viability. Sri Lanka was unable to meet its debt obligations and, as a result, handed over Hambantota Port to a Chinese company on a 99-year lease.⁴ This move was widely seen as an example of debt trap diplomacy, where China gained strategic control over a key maritime location in the Indian Ocean, cementing its influence in South Asia. Sri Lanka's growing debt burden, combined with mismanaged public finances and declining foreign reserves, culminated in the 2022 economic crisis, which saw the country default on its external debt for the first time in history.⁵ Sri Lanka's total external debt exceeded \$50 billion, with Chinese loans forming a significant portion. The country's economic collapse, currency devaluation, fuel shortages, and social unrest highlighted the dangers of unsustainable debt accumulation without clear repayment mechanisms. This crisis reinforced concerns that Chinese lending often lacks sufficient safeguards to ensure long-term financial stability for recipient nations.

China's expanding economic influence in South Asia:

China's increasing financial involvement in Pakistan and Sri Lanka is often viewed through the lens of economic cooperation and infrastructure development. However, beyond economic considerations, China's financial support to these nations serves broader strategic and geopolitical objectives. The loans and infrastructure investments under the Belt and Road Initiative (BRI) enable China to strengthen its influence in South Asia, secure trade routes, counter regional rivals like India, and expand its military and diplomatic reach.⁶

China's financial support to Pakistan and Sri Lanka is a strategic component of its Belt and Road Initiative (BRI), aimed at enhancing global trade connectivity through large-scale infrastructure investments. By financing key projects such as the China-Pakistan Economic Corridor (CPEC) and Hambantota Port in Sri Lanka, China seeks to diversify its trade routes and reduce reliance on vulnerable chokepoints like the Malacca Strait.⁷ Pakistan plays a critical role in this strategy, as CPEC provides China with direct access to Gwadar Port on the Arabian Sea, enabling it to bypass traditional maritime routes dominated by Western powers. Similarly, Sri Lanka's location in the Indian Ocean makes it an essential node in China's maritime trade network, with investments in Hambantota Port and Colombo Port City reinforcing its control over a key transshipment hub.⁸ By funding and managing infrastructure in these two nations, China not only expands its economic influence but also strengthens its geopolitical foothold in South Asia.⁹ While these projects promise economic development, they also raise concerns about debt dependency, strategic concessions, and potential economic sovereignty risks for the recipient nations.

China's expanding financial presence in Pakistan and Sri Lanka is not only driven by economic motives but also by its broader geopolitical strategy to counterbalance India which has traditionally held dominant influence in South Asia. Pakistan has received extensive financial and military support from China through the China-Pakistan Economic Corridor (CPEC). This investment bolsters Pakistan's economy and infrastructure while also enhancing its strategic and military capabilities, indirectly challenging India's regional dominance. Meanwhile, Sri Lanka's location in the Indian Ocean has made it a geopolitical battleground between China and India.¹⁰ Historically, India maintained strong diplomatic and economic ties with Sri Lanka, but China's extensive loans and infrastructure projects have shifted Colombo's economic dependence towards Beijing. By securing control over strategic assets China has strengthened its presence in India's maritime neighborhood, giving it leverages over key trade routes. Through these financial and infrastructural engagements, China expands its influence, weakens India's regional clout, and gains a stronger foothold in South Asia, reshaping the balance of power in the region.¹¹

A key geopolitical motive behind China's financial support to Pakistan and Sri Lanka is its ambition to expand military presence in the Indian Ocean Region (IOR).¹² As China positions

itself as a global power, securing strategic naval outposts and deep-water port facilities has become a crucial objective. Gwadar Port in Pakistan is often speculated to be a potential future Chinese naval base, given its proximity to the Strait of Hormuz, a critical energy supply route.¹³ Similarly, Sri Lanka's Hambantota Port, leased to China for 99 years after Sri Lanka's failure to repay loans, has raised concerns about its dual-use potential, where it could serve both commercial and military purposes.¹⁴ Beyond port access China has also deepened defence ties with both nations through increased arms sales and military cooperation solidifying its influence in the region. By securing naval access points in strategic locations, China enhances its military readiness, safeguards its trade routes, and directly challenges the dominance of Western and Indian naval forces in the Indian Ocean thereby reshaping regional security dynamics.

China's financial assistance to Pakistan and Sri Lanka is not just an economic strategy but also a powerful tool for diplomatic leverage, ensuring these nations align with China's political interests on the global stage.¹⁵ By extending large-scale loans and investments, China secures support in international forums on critical issues. Pakistan has consistently backed China on matters such as Taiwan, Hong Kong, and the South China Sea disputes, reinforcing Beijing's position against Western criticism.¹⁶ In return, China provides economic, military, and diplomatic backing to Pakistan in its regional conflicts with India. Likewise, Sri Lanka's growing financial dependence on China has led to closer diplomatic alignment with Beijing. For instance, Sri Lanka has supported China's stance on human rights issues at the United Nations and other global platforms, demonstrating how economic reliance translates into political cooperation.¹⁷ Through financial dependency, China strengthens its geopolitical influence, ensuring that Pakistan and Sri Lanka remain key allies, helping China advance its global and regional strategic objectives while countering Western and Indian influence in South Asia.

China's financial engagements with Pakistan and Sri Lanka are not solely driven by geopolitical and strategic interests; they also serve to bolster China's own economic and industrial growth. Many of the infrastructure projects funded by China are constructed and operated by Chinese companies, using Chinese labour and materials, ensuring that China's industries benefit directly from these investments.¹⁸ Under the China-Pakistan Economic Corridor (CPEC), Chinese firms dominate key sectors, including energy, transport, and manufacturing, securing long-term economic returns for China's state-owned enterprises. In Sri Lanka, Chinese companies have obtained lucrative contracts in port development, real estate, and infrastructure, deepening economic dependencies that favour Beijing's interests. These financial arrangements enable China to expand its global economic footprint, secure profitable contracts for its enterprises, and maintain a strong economic influence over recipient nations. By ensuring that Chinese industries are the primary beneficiaries, China transforms its financial assistance into a self-sustaining economic model, reinforcing both its domestic industrial expansion and international strategic influence.¹⁹

The Power Shift in South Asia:

China's growing financial presence in Pakistan and Sri Lanka has significantly altered local and regional power dynamics in South Asia.²⁰ While these investments bring economic development opportunities, they also shift political alliances, military balances, and economic dependencies. The increasing Chinese influence in these countries, challenges India's traditional regional supremacy, alters geopolitical alignments, and raises concerns about sovereignty and economic stability. China's financial involvement in Pakistan and Sri Lanka has allowed Beijing to establish itself as a dominant player in their political and economic affairs, shaping their diplomatic alignments and strategic decisions.²¹ In Pakistan, the China-Pakistan Economic Corridor (CPEC) has significantly deepened economic ties, making Islamabad increasingly reliant on Chinese investments. This financial dependency has influenced Pakistan's diplomatic and strategic policies, often leading it to align with Beijing on key international issues in its relations with India and the United States. Heavy borrowing from China for infrastructure projects Sri Lanka has created economic vulnerabilities, forcing it to concede strategic assets to China to manage its debt crisis. This has raised serious concerns over sovereignty, long-term economic stability, and China's growing influence over Sri

Lanka's internal affairs. By extending large-scale financial assistance, China ensures that both Pakistan and Sri Lanka prioritise Beijing's economic, diplomatic, and security interests, thereby expanding its regional foothold and strengthening its geopolitical leverage in South Asia.²²

China's financial investments in Pakistan and Sri Lanka have directly challenged India's historical influence in South Asia, reshaping the region's geopolitical and strategic landscape. The Pakistan-China alliance, strengthened through economic and military cooperation, serves as a counterbalance to India's regional dominance.²³ Through CPEC, China has significantly improved Pakistan's infrastructure, economy, and military capabilities, making it a stronger strategic competitor against India. In Sri Lanka, China's deep financial and political engagements have diminished India's historical influence, shifting Colombo's geopolitical alignment toward Beijing. This shift has weakened Sri Lanka's economic dependence on India, reducing New Delhi's ability to shape its regional policies. Furthermore, China's growing influence in the Indian Ocean Region (IOR) has intensified border and maritime tensions, as both China and India compete for strategic dominance. India perceives Chinese-controlled ports in Gwadar and Hambantota as security threats, fearing that these locations could be used to monitor Indian naval movements.²⁴ As China continues to expand its economic and military foothold in South Asia, India faces growing pressure to counterbalance Beijing's presence through economic investments, diplomatic efforts, and security partnerships with neighboring countries, thereby ensuring its own strategic interests in the region.

China's financial engagements with Pakistan and Sri Lanka, particularly through high-interest loans and large-scale infrastructure investments, have significantly increased their reliance on Chinese credit, affecting their sovereignty and economic decision-making. In Pakistan, China has become its largest bilateral creditor, with over \$30 billion in outstanding loans as of 2023.²⁵ This heavy debt burden has left Pakistan in a financially vulnerable position, forcing it to renegotiate repayment terms with China, often at the cost of granting Chinese firms preferential treatment in major infrastructure projects. Pakistan's growing economic dependency on China has led to political and diplomatic pressures, compelling Islamabad to align its foreign policy with Beijing's interests.²⁶ As a result, Pakistan's ability to make independent financial decisions has been significantly reduced, raising concerns about long-term economic sustainability and national sovereignty. This deepening reliance on Chinese credit and investments highlights the far-reaching implications of debt-driven diplomacy, reinforcing China's strategic leverage in Pakistan's economic and political affairs.

Sri Lanka's failure to repay Chinese loans led to one of the most prominent examples of debt-driven dependency, with the 99-year lease of Hambantota Port to a Chinese company.²⁷ This case underscores the risks of heavy reliance on Chinese credit, where financial distress can result in the loss of sovereign control over critical infrastructure. China's continued economic engagement in Sri Lanka has raised concerns that other strategic assets could face a similar fate if the country's economic instability persists.²⁸ By deepening economic dependency, China secures greater political and strategic influence, often compelling governments to align with Beijing's interests in exchange for financial relief. While these investments provide short-term economic benefits, they also erode local decision-making power, making it difficult for nations like Sri Lanka to pursue independent policies. This situation highlights the long-term geopolitical implications of China's financial strategy, where economic leverage translates into strategic control, raising critical questions about sovereignty, governance, and sustainable development in debt-ridden nations.

China's growing control over strategic infrastructure in Pakistan and Sri Lanka has far-reaching implications for regional military and security dynamics, particularly in the Indian Ocean Region (IOR).²⁹ The potential for a Chinese naval presence at Gwadar Port and Hambantota Port has raised serious concerns. While these ports are officially designated for commercial use, their strategic locations make them ideal for military expansion. Gwadar Port could serve as a logistics hub for the Chinese navy allowing Beijing to monitor key energy trade routes.³⁰ Hambantota Port positioned along major global shipping lanes, heightens fears of China

expanding its military footprint in the Indian Ocean, potentially challenging India's maritime dominance.

China's deepening military ties with Pakistan have shifted the regional security balance. As Pakistan's largest arms supplier, China has provided advanced fighter jets, submarines, and missile technology, strengthening Islamabad's defense capabilities. Joint military exercises and defense collaborations between China and Pakistan have intensified, reinforcing China's strategic influence in South Asia.³¹ In response, India and Western powers have escalated their efforts to counterbalance China's expanding influence through security alliances like the Quad³² (India, US, Japan, and Australia). As China continues to solidify its military partnerships and control over strategic assets, the power dynamics in South Asia and the Indo-Pacific are being redefined, leading to a more polarised and militarised regional security environment. China's financial engagements have significantly influenced the diplomatic alignments of Pakistan and Sri Lanka, altering their relationships with other global powers.³³ In Pakistan, the country's dependence on Chinese loans and military support has deepened its diplomatic ties with Beijing, often at the expense of its historical alliance with the United States. As a result, Pakistan frequently aligns with China in global forums like the United Nations, particularly on issues such as Taiwan, the South China Sea, and human rights, reflecting its shift toward China. Meanwhile, Sri Lanka's economic reliance on China has led to a balancing act in its foreign policy. Although it maintains ties with India and Western nations, Sri Lanka's growing dependence on Chinese investments has made it increasingly supportive of Beijing's policies in global diplomatic matters.³⁴ This shift has raised Western concerns over Sri Lanka's human rights record, governance, and transparency in financial dealings, further highlighting the impact of China's financial influence on small nations in reshaping their diplomatic priorities and global standing.

Challenges faced by Pakistan and Sri Lanka:

Pakistan and Sri Lanka have increasingly relied on Chinese loans for large-scale infrastructure projects, particularly under China's Belt and Road Initiative (BRI).

- While these investments have led to economic development and improved infrastructure, they have also resulted in heavy debt burdens that have strained the financial stability of both countries.
- The challenge of meeting these debt obligations has led to economic distress, loss of strategic assets, and increased reliance on Beijing, raising concerns about debt trap diplomacy.
- Both Pakistan and Sri Lanka have accumulated substantial debt from China, making it increasingly difficult to manage their financial commitments.
- In Pakistan, the total external debt exceeded \$125 billion in 2023, with China being its largest bilateral lender.³⁵ These loans were used for infrastructure projects under the China-Pakistan Economic Corridor (CPEC) and to provide emergency financial assistance to prevent an economic collapse. However, due to ongoing fiscal deficits, low foreign exchange reserves, and a struggling economy, Pakistan has been forced to seek debt rollovers and renegotiations with China.
- Sri Lanka's debt crisis worsened as its external debt reached over \$46.9 billion, with China accounting for approximately 52%.³⁶ Major Chinese-funded projects like Hambantota Port and Colombo Port City were financed through high-interest loans, leading to a heavy debt burden. Sri Lanka's inability to meet these obligations culminated in its default on debt in April 2022, marking the country's worst financial crisis since independence.
- Both nations are trapped in a cycle of economic distress, relying heavily on China for financial relief, which exacerbates their dependence on Chinese support. This situation highlights the dangers of unsustainable borrowing and the challenges these nations face in managing their financial obligations, ultimately leading to severe economic instability and diminishing sovereignty.

Consequences of debt challenges:

The rising debt burdens of Pakistan and Sri Lanka, particularly their financial obligations to China, have had profound political, economic, and strategic consequences.

- Both nations struggle to repay loans and restructure their debt, concerns have grown over the erosion of national sovereignty, increasing economic dependence, and the governance challenges these countries face.
- In Pakistan, the heavy reliance on Chinese financial support has led to significant policy shifts, with Islamabad aligning itself with Beijing's foreign policy interests, particularly on issues like the South China Sea and human rights. Sri Lanka's shift towards Chinese interests is evident as its heavy borrowing has resulted in political influence from Beijing, often prioritizing Chinese investments over local or Western projects.
- One of the most visible consequences of this financial strain is the loss of strategic national assets like Sri Lanka's leasing of Hambantota Port to China for 99 years³⁷, and growing concerns over the future control of Pakistan's Gwadar Port. These developments signal a loss of sovereign control over critical infrastructure, leaving both countries vulnerable to external influence.
- Governance in both nations has been weakened, with corruption, lack of transparency, and political instability becoming more pronounced due to economic mismanagement and China's influence. These factors have triggered geopolitical realignments, with both nations deepening their ties with China at the expense of their relationships with traditional allies, particularly India and Western powers.
- The growing financial dependency on China has led to economic vulnerabilities, making it difficult for both Pakistan and Sri Lanka to regain financial independence and sustainable development, which could continue to impact their political and strategic decisions for the foreseeable future.

Impact on Pakistan and Sri Lanka:

China's Belt and Road Initiative (BRI) has significantly influenced the economic, political, and strategic landscapes of both Pakistan and Sri Lanka, offered major infrastructure investments while also created challenges related to debt, sovereignty, and geopolitical alignments.

- Launched in 2015, CPEC aims to improve Pakistan's connectivity and infrastructure through \$60 billion in investments, enhancing transportation, energy, and industrial sectors. It links China's Xinjiang province to Gwadar Port, boosting logistics and energy security.³⁸
- CPEC has led to substantial debt accumulation, with China being Pakistan's largest creditor. The country faces difficulties in generating sufficient revenue to repay loans, frequently seeking bailouts and loan rollovers from China.
- The Gwadar Port strengthens China-Pakistan defense ties, enhancing China's influence in the region, and complicating Pakistan's relationships with India and the U.S.³⁹
- The growing financial reliance on China has led to governance challenges, including corruption and lack of transparency in CPEC projects, as well as concerns over local industries suffering due to the influx of Chinese companies.
- BRI projects in Sri Lanka have modernized the nation's economy but also led to mounting debt and instability.
- The failure of the Hambantota Port to generate revenue resulted in Sri Lanka leasing it to China for 99 years, a move that sparked global concerns over debt-trap diplomacy and the loss of national sovereignty.
- Sri Lanka's deepening ties with China have strained its relations with India, the U.S., and Japan, forcing the country to balance its foreign policy to maintain strategic autonomy while aligning more with Beijing's interests.
- The 2022 economic crisis, triggered by Sri Lanka's inability to repay loans, resulted in widespread protests and government instability. While China offered some debt relief, it was reluctant to provide significant restructuring, highlighting the risks of excessive reliance on Chinese loans.

Failed measures:

Both Pakistan and Sri Lanka have made various attempts to mitigate the risks of falling into a debt trap with China, but these efforts have largely been unsuccessful due to mismanagement, lack of transparency, political instability, and overdependence on Chinese loans.

- Despite seeking financial aid from the IMF, World Bank, and other nations, Pakistan has remained dependent on Chinese loans, as conditions from alternative sources require difficult reforms that the country has struggled to implement.
- Efforts to renegotiate CPEC loan terms have failed to reduce the overall debt burden, as loan rollovers only delay payments and Chinese companies continue to benefit from favourable terms, leaving Pakistan with limited economic advantages.
- Attempts to reduce fiscal deficits through tax reforms, subsidy cuts, and privatization have been thwarted by weak enforcement, corruption, and public opposition to austerity measures.
- Although Pakistan has pledged to improve transparency in CPEC projects, secrecy and corruption persist, undermining efforts to ensure effective governance and reducing public accountability.⁴⁰
- Despite efforts to diversify financial partnerships by securing IMF bailouts and seeking investments from India and Japan, Sri Lanka remains heavily reliant on Chinese funding, unable to break free from debt dependency.⁴¹
- Debt renegotiation efforts have resulted in the loss of sovereignty over key assets, such as the 99-year lease of Hambantota Port to China, which has only deepened the country's dependency on Chinese control of strategic infrastructure.
- Sri Lanka's attempts to increase tax revenues and cut expenditures failed due to severe mismanagement, inflation, and the inability to enforce tax reforms, leaving the country financially unstable.
- Plans for economic reforms aimed at boosting exports and improving governance have been undermined by poor execution, political instability, and ongoing corruption, preventing sustainable economic growth and perpetuating reliance on foreign loans.

In both countries, financial mismanagement, weak governance, and political challenges have prevented meaningful progress in reducing their dependence on Chinese loans, leaving them vulnerable to ongoing economic crises.

International institutions support:

International financial institutions and regional organizations play a crucial role in helping Pakistan and Sri Lanka reduce their reliance on Chinese loans and prevent future debt crises. To be effective, assistance must go beyond short-term bailouts and focus on long-term economic stability, institutional reforms, and sustainable infrastructure financing. Below is a detailed analysis of how these institutions can support both nations.

- The IMF should enforce stricter monitoring of loan disbursements, and the World Bank should provide technical support for improving debt sustainability. Pakistan must also address tax evasion and pursue energy reforms to reduce reliance on costly imports.
- ADB and the World Bank should offer concessional financing for projects promoting regional connectivity and renewable energy. Additionally, Pakistan should seek joint funding with Gulf countries and strengthen public-private partnerships (PPPs) to attract diverse investment.
- Debt restructuring initiatives must be transparent, and the Paris Club and G7 should negotiate with China to prevent asset seizures. Pakistan can explore debt swaps for sustainable development, with countries like India and Japan offering competitive alternative financing.
- The WTO and EU can assist Pakistan in gaining better access to global markets. Fostering regional economic cooperation and focusing on export-driven industries like technology and pharmaceuticals will help reduce dependence on Chinese trade agreements.
- The IMF should impose stringent fiscal discipline conditions, and the World Bank should help Sri Lanka diversify its revenue base, focusing on sectors like tourism, agriculture, and IT services to reduce reliance on debt.

- The Paris Club and IMF should negotiate fair restructuring deals with China and push for transparency to avoid further hidden refinancing agreements. A moratorium on interest payments could help Sri Lanka stabilize before further repayments.
- Sri Lanka should explore infrastructure funding from ADB, AIIB, and the World Bank, ensuring better transparency and low-interest financing. Investment in renewable energy and logistics through public-private partnerships (PPPs) will reduce China's financial dominance.
- International institutions should help Sri Lanka diversify its economy by expanding exports in high-value sectors like IT and pharmaceuticals. Stronger trade ties with India, ASEAN, and the EU will lessen dependency on Chinese trade agreements and help mitigate external shocks.
- Push for transparent debt restructuring negotiations with China.
- Strengthen trade partnerships with Western and regional allies to reduce reliance on Chinese markets.
- Encourage sustainable and diversified economic policies to improve self-sufficiency.
- Implement strong anti-corruption and transparency measures to ensure effective use of financial aid.
- Offer alternative infrastructure financing mechanisms to reduce dependency on China's Belt and Road Initiative (BRI).

Importance:

This research article is significant as it sheds light on the growing concerns of debt trap diplomacy, particularly in the context of China's financial engagements with Pakistan and Sri Lanka. Given the increasing role of China's Belt and Road Initiative (BRI) in reshaping global economic and political landscapes, understanding the long-term implications of Chinese lending strategies is crucial for policymakers, economists, and international institutions. The study provides a comprehensive analysis of how excessive reliance on Chinese loans has led to economic distress, weakened financial sovereignty, and increased geopolitical leverage for China in South Asia. By examining case studies of Sri Lanka and Pakistan, this research offers valuable insights into the strategic motives behind China's investments and the challenges faced by borrowing nations. It highlights the role of international financial institutions and explores potential strategies to mitigate the risks associated with debt dependency. The findings of this study contribute to the broader discourse on global economic governance, financial transparency, and sustainable development, making it highly relevant for governments, scholars, and global organisations aiming to address financial vulnerabilities and safeguard economic independence.

Results:

The findings of this article reveal that China's lending strategies in Pakistan and Sri Lanka have led to significant financial distress, raising concerns over debt trap diplomacy. Both nations have accumulated unsustainable levels of debt due to large-scale Chinese-funded infrastructure projects which have contributed to balance of payments crises and fiscal instability. The inability to meet debt obligations has forced these countries to seek IMF bailouts and external financial assistance has intensified their economic vulnerabilities. The research highlights how Chinese loans often come with opaque terms, high interest rates, and strategic conditions, leading to geopolitical leverage for China, as seen in Sri Lanka's leasing of Hambantota Port to a Chinese company. While Pakistan has attempted to renegotiate loan terms and diversify funding sources, and Sri Lanka has sought debt restructuring with international lenders, both nations continue to struggle with economic dependency on China. The paper also finds that international financial institutions, such as the IMF and World Bank, play a crucial role in offering alternative financial support yet their effectiveness remains limited without strong domestic reforms and governance improvements in both countries. Overall, the results suggest that unless Pakistan and Sri Lanka implement long-term economic reforms, improve financial transparency, and reduce reliance on Chinese credit, they will remain vulnerable to future debt crises and external political pressures.

Discussion:

The findings of this paper underscore the complex interplay between China's financial diplomacy, economic vulnerabilities, and geopolitical strategies in Pakistan and Sri Lanka. The evidence suggests that while Chinese loans have facilitated large-scale infrastructure development, they have also led to mounting debt burdens, economic instability, and strategic dependencies. The case of Sri Lanka's Hambantota Port, which was leased to China after debt repayment failures, serves as a cautionary example of how excessive borrowing can translate into loss of sovereignty and strategic concessions. Similarly, Pakistan's China-Pakistan Economic Corridor (CPEC) has deepened financial ties but has also contributed to fiscal pressures, trade imbalances, and overreliance on external borrowing. The research highlights that China's lending approach often lacks transparency, with loan agreements including high-interest rates, confidentiality clauses, and potential asset takeovers, raising concerns about debt trap diplomacy. The paper finds that international institutions like the IMF and World Bank have provided financial assistance, but their effectiveness is limited without domestic economic reforms, better governance, and debt transparency. While diversifying financial sources, renegotiating Chinese loan terms, and strengthening local economic policies could mitigate risks, the growing economic entanglement with China poses long-term challenges for both nations. Ultimately, the research paper suggests that without proactive financial management and strategic policy interventions, Pakistan and Sri Lanka may continue to face economic instability and increased geopolitical influence from China.

Conclusion:

This research paper highlights the growing concerns of China's debt trap diplomacy in Pakistan and Sri Lanka, demonstrating how excessive reliance on Chinese loans has led to economic instability, rising debt burdens, and potential loss of sovereignty. While Chinese-funded projects under the Belt and Road Initiative (BRI) have contributed to infrastructure development, the opaque loan terms, high-interest rates, and strategic conditions have placed these nations in a cycle of dependency and financial distress. The cases of Hambantota Port in Sri Lanka and CPEC in Pakistan illustrate the broader risks associated with unsustainable borrowing, where economic vulnerability can translate into geopolitical leverage for China. Despite efforts to renegotiate loans, seek IMF assistance, and diversify funding sources, both nations continue to struggle with economic uncertainties and governance challenges. The paper underscores the need for stronger financial policies, greater transparency in loan agreements, and strategic economic diversification to reduce reliance on Chinese credit. International financial institutions such as the IMF, World Bank, and ADB must play a more active role in providing viable financial alternatives to prevent further debt crises. Moving forward, Pakistan and Sri Lanka must adopt comprehensive economic reforms, improve governance structures, and enhance regional cooperation to ensure long-term financial stability and sovereignty in an increasingly complex global economic landscape.

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