

SRI LANKA AND THE BELT AND ROAD INITIATIVE: A BALANCING ACT IN THE INDIAN OCEAN REGION

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ABSTRACT

Sri Lanka's salient position in Beijing's global ambitions is reflected in the availability of the Chinese resources for its economic and defence modernisation. The country's strategic proximity to China's commercial sea routes and its positive reception to the BRI provides Beijing with an opportunity to illustrate the promise of mutual benefits offered in its initiative. Meanwhile, Colombo's acceptance of China's investments relies on an economic strategy that seeks to modernise its infrastructure and naval operations that would secure the new economic growth sectors as a IOR state. As Beijing advances its geo-economic objectives across three continents, important questions emerge regarding the impact of the BRI on the existing political and economic arrangements. Sri Lanka offers an informative case study towards understanding the initiative's implementation, the resulting escalation of rivalries in the IOR, and national responses in the new setting. The ripple effects of the BRI developments present new dilemmas and weighs heavily on state decisions for a country that finds itself in the center of great power rivalry.

Keywords: The BRI, Great Power Rivalry, Debt-Diplomacy, Balancing India and China

INTRODUCTION

Sri Lanka's salient position in Beijing's global commercial and strategic ambitions is apparent in the Belt and Road Initiative's (BRI's) rapid implementation in the country utilising Chinese development aid and defence agreements. Sri Lanka's strategic proximity to China's sea routes and its positive reception to the BRI related-developments provides Beijing with an opportunity for illustrating the promise of mutual benefits offered in the BRI (The Economist, 2020). Initiated in 2013, China's BRI seeks to advance the country's global economic framework that produced its remarkable growth in the previous two decades, a framework that experienced a slowdown after 2007 due to structural issues in emerging markets (Blanchard and Flint, 2017). The People's Republic of China's (PRC's) plan of investing in a global transit system, including land and sea routes, is designed to overcome the structural barriers and revive the high levels of economic growth. The coordinated expansion of a defence infrastructure ensures the security of Beijing's economic objectives (Clarke, 2018). As PRC advances its geo-economic objectives across three continents, important questions emerge regarding the impact of the

BRI on the commercial and defence ties in countries that lie on its path. Sri Lanka's openness to the BRI related-developments offers an informative case study towards understanding the initiative's implementation at the local level, the resulting escalation of rivalries in the Indian Ocean Region (IOR), and national responses in the new setting.

Colombo's acceptance of China's investments and the promise of benign growth reflects its economic policy centered upon the expanding commercial trade network at its maritime door. In order to develop its ports, as well as its transit systems, to take advantage of the new commercial opportunities, the state requires necessary financing to modernise its infrastructure and naval operations that would secure the new economic growth sectors. Yet, the shift in the global power structures along with the availability of aid from China produces new external pressures as the BRI disrupts existing political and economic arrangements in host countries such as Sri Lanka. The ripple effects of the BRI developments present new dilemmas for a country that is still in the process of reconciliation in the post-war period and now finds itself in the center of great power rivalry, which not only presents opportunities but also weighs on state decisions.

THE DYNAMICS OF SINO-SRI LANKA ALLIANCE

Sri Lanka lies in the path of two-thirds of the world's oil and over half of its commercial traffic. The extensive blue water depth capacity of its Colombo Port also enhances its strategic and commercial position. Subsequently, Beijing's targeted efforts to secure influence with the island's authorities and its commercial sector since the 1990s has paid off with the Colombo's easy acceptance of the BRI plans. China's current investment in the country amounts to US\$11 billion, of which US\$8 billion is associated with the BRI (Foizee, 2020).

Analysts often point to China's widespread presence in Sri Lanka's affairs as an example of a "debt diplomacy," which forces a country to give up its sovereignty for the lender country financing its debt (Moramudali, 2018). Yet, the Sino-Sri Lankan relationship is more complex than just debt diplomacy. Beijing's security and economic aid during the relentless and costly Liberation Tigers Tamil Eelam (LTTE) insurgency that evolved into a prolonged violent conflict stretching over three decades (1983–2009), produced a foundation for Sino-Sri Lankan alliance in the 1990s (Hashim, 2010, p. 207). This bilateral relationship also expanded through the 1990s when Sri Lanka needed aid due to the emergence of the Asian crisis that threatened to reduce Sri Lanka's exports and remittances. The threat of reduced revenues produced new stresses upon the state at the time of growing national defence requirements. Meanwhile, India's botched attempt at peacekeeping and negotiating between Colombo and the LTTE produced a determination among Sri Lankan authorities to seek out a counterweight to India's influence (Destradi, 2012). Moreover, Western countries' ban on arms sales to countries accused of

human rights violations, as Sri Lanka had been over its dealing with the LTTE insurgency, removed them as a countervailing option increasing Sri Lanka's reliance on China for defence aid. In the final phase of the insurgency in 2007, China is credited with having tipped the war against the LTTE by providing US\$36 million worth of ammunition and ordnance sales to the state. China also gifted the country six F7 jet fighters (Page, 2009).

After the insurgency ended in 2009, Sri Lanka's significance to China and other countries seeking to expand their influence in the IOR became increasingly apparent. China remained a crucial ally to Sri Lanka in the United Nations Security Council; it blocked efforts to reprimand Sri Lanka for human rights violations in the final years of the war (Destradi, 2012). India, in 2012, along with Russia, joined China in backing Colombo in the United Nations Human Rights Commission's efforts to investigate the state of violence at the end of the war. Subsequently, confronted by a weak economy, represented by growing interest payments that amounted to approximately 30 percent of the government expenses (World Bank, 2020), Colombo saw China's BRI funds as an opportunity to address investment shortages in order to participate in the growing commercial trade in the IOR.

SRI LANKA'S MARITIME DEVELOPMENTS

The island's proximity to the busy sea lines of communication (SLOCs) provides Sri Lanka with an opportunity to grow its blue economy. This opportunity is a double-edged sword as increased traffic in its sea lanes produces a need for furthering its security in its economic exclusion zones, which have seen a rise in illicit activities associated with drug transportation and threats to its fisheries. Sri Lanka also seeks to address maritime security gaps that became visible during the LTTE insurgency when the radical group successfully used small boats to transport arms and launch attacks of Sri Lanka Navy. Soon after President Xi Jinping publicised China's BRI objectives, Colombo announced its maritime strategy 2025, which included plans to tap into the resources made available by China's investments. China's previous presence at Sri Lanka's ports as a development and defence partner made Sri Lanka an ideal candidate for mutual growth objectives and an essential node in the BRI.

China's presence in Sri Lanka is prominent at two of Sri Lanka's largest ports, Colombo and Hambantota. In 2014, the two countries reached an agreement that would convert the Colombo Port into a smart city at the cost of US\$1.4 billion, to be financed by the Chinese (Rossi, 2019). The contract for this development went to China Communication Construction Company (CCCC) and China Harbour Engineering Company (CHEC), both Chinese state-owned enterprises (SOEs). According to the agreement, China would control the expanded areas that would be added by reclamation. China Merchant Port Harbour Limited's (CMPHL) 99-year lease and 85 percent stake in the South Container Terminal at Port in Colombo, renovated with Chinese funding in 2013–2014, exemplifies the type of

agreements that emerged in exchange for China's investment (Chowdhary, 2015). Several observers highlight that these agreements potentially provide China with the strategic location and a site for docking People's Liberation Army—Navy ships, although both Colombo and Beijing have denied the these ports are being used for military purposes, especially after Chinese submarines made dock visits in 2014 (Singh, 2015; Pattanaik, 2019).

The more controversial decision illustrating Beijing's prominence in Sri Lanka is the 2016 transference of Hambantota's port authority for 99-years to CMPHL in exchange for US\$ 1.12 billion to help service Colombo's US\$ 66 billion national debt in 2016 (Moramudali, 2018). China's pre-existing presence at the port since 2007 allowed the two countries to transfer authority to China without extensive and transparent negotiations. In 2007, the CHEC had constructed the port for Colombo financed through loans from the Export-Import (EXIM) Bank of China. In 2009, the state also borrowed another US\$190 million from EXIM for the construction of Mattala Rajapaksa International Airport (also by CHEC) near Hambantota (Wignaraja et al., 2020). At the time, the project promised to generate jobs in President Mahinda Rajapaksa's home constituency and divert port traffic from Colombo. Although Hambantota's intended commercial feasibility has yet to pan out for Sri Lanka, its proximity to major SLOCs and India, presents strategic and surveillance possibilities for China. After gaining authority over the management of Hambantota in 2017, China has invested more towards increasing the port's operational capacity and built a fueling depot managed by the China Petroleum and Chemical Corporation.

Not surprisingly, the transfer of Hambantota Port's authority to a Chinese SOE did not go unnoticed by domestic constituencies and the political opposition. It also produced criticism regarding the benefits of the BRI-related programmes for local economies (Al Jazeera, 2017; Daily Mirror, 2017). The lease also ratcheted up pressure from India and Sri Lanka's other development partners, who are concerned about China's expanding prominence. Furthermore, Colombo's external engagements reflect attempts to balance China's influence that takes into consideration the growing rivalries in the IOR, pressures from Sri Lanka's existing development and economic partners, and its democratic responsibilities.

COMPELLING EXTERNAL AND DOMESTIC FORCES

In 2013, the Mahinda Rajapaksa administration, often considered favorable towards China due to close ties established towards the end of LTTE insurgency, illustrated its willingness to open the country to the Belt and Road proposal to bolster the country's infrastructure. In the 2015 election, however, the administration lost the election to Maithripala Sirisena, who then became responsible for overseeing BRI's implementation and addressing the accompanying financial, domestic, and external pressures that called for maintaining sovereignty and balancing previous economic and strategic relations.

Upon coming to power, the Sirisena administration immediately sought to address the issues associated with the BRI agreements. In 2015, the state halted the US\$ 1.4 billion Colombo Port City project to renegotiate the terms, a move produced by pressures from the citizens concerned about sovereignty and rising state debt. The project's reinstatement in 2016 and the leasing of additional 110 hectares of reclaimed land to CCCC reflected the dire economic pressures confronting the Sri Lankan government and China's considerable influence exerted through its dominant presence in the infrastructural projects and as an important source of defence-related acquisitions (Reuters, 2016). The matters came to head in 2016, when the state handed 80 percent stake in the Hambantota Port to CMPHL for 99 years and leased out another 15,000 acres of the surrounding land for Chinese economic zones due to an upcoming debt payment. Violent protests broke out in the country led by Buddhist organisations and the left-oriented Janatha Vimukthi Peramuna (People's Liberation Front) trade unions associated with workers at the ports (Al Jazeera, 2017; Daily Mirror, 2017). The protestors demanded the state reconsider its decisions, although the port at the time was considered a white elephant that had yet to prove its economic feasibility (Marlow, 2018).

Although the domestic protests did not produce a significant reversal in the BRI policy or the lease of Hambantota, Colombo's economic and defence agreements since 2016 indicate state's shift towards balancing China's influence. An increasing number of questions regarding the debt and economic policy combined with the rising of new global rivalries compel the state towards a different approach. The country's adoption of the liberal economic model since the 1980s pegged its economic growth to export markets and tourism revenues, which exert pressures on continuing trade relations, especially in the context of deficit with China. Meanwhile, both India and the United States, two of Sri Lanka's most significant trade partners, continue to express their apprehensions regarding China's increasing presence in the country (Blanchard and Flint, 2017, p. 234). Colombo's management of ties with these two countries illustrate the state's attempts at countering China's clout.

The Sri Lanka-U.S. bilateral engagement began in the 1950s mainly through the U.S. Agency for International Development and Trade. That engagement deepened in the late 1990s through security cooperation when the United States designated the LTTE as a terrorist organisation and initiated intelligence sharing that assisted Sri Lanka in containing the insurgency. Washington's actions are often linked to the increasing need to contain terrorism globally as well as respond to the rising presence of China in the region. The U.S. declaration of LTTE as a terrorist organisation in 1998 also reduced the latter's external financing sources and its ability to acquire arms. In the post-2001 period, the United States also initiated defence-associated support to Sri Lanka by providing non-deadly systems. Since then, Sri Lanka-U.S. ties have transitioned from almost negligible into a constructive alliance. After the devastating 2004 tsunami, U.S. humanitarian assistance included an economic package and rescue efforts by the U.S. Navy and Marines that were well-received.

Two important variables continue to promote bilateral ties between Sri Lanka and the United States. First, Sri Lanka's economy relies heavily on garment exports to developed economies, such as the United States, Japan, and Germany, which are also a source of development aid. Despite expanding commercial relations with China, Sri Lanka's largest single export market is the United States, accounting for roughly 24 percent of the country's overseas sales (OEC, 2020). While China is Sri Lanka's largest trade partner, that relationship has produced a deficit favoring China. More recently, United States and Sri Lanka have also signed a few defence agreements and are increasing their naval cooperation (Ramchandran, 2019). Washington's recognition of Colombo's needs that influence its China policy promoted better ties in the past decade.

Increased cooperation between the United States and Sri Lanka is most visible in Sri Lanka's maritime modernisation efforts in the past decade. The modernisation is necessary due to its increasing need for maritime security contextualised by IOR trade expansion and a growing rivalry in the region. The USS Nimitz's visit to Sri Lanka during the Galle Dialogue in 2016 as the first U.S. naval carrier to visit in 32 years initiated a new era of naval cooperation between the two countries. The United States also granted US\$39 million to boost Sri Lanka's maritime security, donated a cutter, and is aiding the formation of the Sri Lankan marine corps (Bureau of South and Central Asian Affairs, 2020). Consequently, Sri Lankan navy increased its presence in joint exercises involving the United States and other defence partners, such as India at Malabar, which indicated Sri Lanka's willingness to cooperate in efforts to counter China's growing influence in the IOR. More importantly, the United States and Sri Lanka also renewed and expanded the Acquisition and Cross Service Agreement (ACSA) in 2017, a move that stirred controversy among domestic groups critical of external pressures. Though the return of the pro-China Rajapaksa government in 2019 may be viewed as a problem for the efforts of the United States to bolster its relations with Sri Lanka, it is important to note that the original ACSA in 2007 was approved of by the same Rajapaksa administration. After returning to power in 2019, the Rajapaksa administration also unexpectedly sought to renegotiate the Hambantota lease with Beijing to appease the domestic groups critical of its growing reliance on China (Lo, 2019). Some political factions in Sri Lanka also look towards the United States and its allies to counter China's clout (Ayres, 2019).

Sri Lanka's recent bilateral agreements with India also illustrate the significance of the external actors in decision-making. It is important to note that along with India's proximity, which casts a shadow on its diplomatic and developmental decision making, India is one of the islands' largest trading partners. It is the source of 70 percent of the cargo at Colombo port and has provided estimated US\$ 2.5 billion in development assistance over the years (Chazan, 2017). Since the initiation of the BRI projects, Colombo has sought to ease India's apprehensions regarding China's growing footprint in Sri Lanka through several statements and decisions.

New Delhi's threat perceptions, influenced by the disputed territories with China in India's north, shape its concerns of the BRI that runs close to its borders and in the case of Azad Kashmir, through it (Chakma, 2019). Although Azad Kashmir has been held by Pakistan since 1948, India continues to claim it as an occupied territory. After the British departed in 1947, China claimed parts of Kashmir and the state of Arunachal Pradesh in India's northeast. The two countries dealt with the dispute through diplomacy until 1962, when a war between them resulted in a loss of territory for India. The BRI-related developments in the proximity of the disputed border regions have heightened tensions and triggered deadly skirmishes between China and India (2017 and 2020). Both China and India seek to develop and increase their security infrastructure near the disputed areas. India's Prime Minister Narendra Modi's refusal to attend the BRI summit in June 2019 is an indicator of the lack of agreement between the two countries on the BRI.

New Delhi's responses to China's aggressive actions in the north includes increasing accommodation of its neighbors in the IOR and, more specifically, Colombo's requirements. After China announced its BRI plans in South Asia in 2013, India adopted a "Neighborhood First" policy to address what it sees as an attempt of encirclement of India by China. In 2015, Modi announced New Delhi's Security and Growth for All in the Region (SAGAR) project, which sought to develop India's maritime infrastructure. Additionally, the state recently shifted its attention and resources from its historically strong mainland naval ports, its eastern, southern, and western commands respectively, to the more strategically located islands of Andaman and Nicobar (ANI) for better surveillance and defence capabilities. In 2018, Sri Lanka also participated in the 10th biennial MILAN exercises with the 11 other countries in the vicinity of these islands (Chakma, 2019). The regularisation of the Indo Sri Lanka bilateral maritime exercise series, SLINEX also indicates increasing coordination and cooperation. Prime Minister Modi's two visits to Colombo in the past five years and a promise of development aid worth half a billion dollars sent a signal of future positive prospects between the two countries. In response to New Delhi's overtures, both Sirisena and Gotabaya Rajapaksa, upon coming to power in 2015 and 2019 respectively, visited India soon after their election. Most recently, Sri Lanka announced it would prioritise India's interests during strategic decision-making (PTI, 2020).

Colombo's pragmatic responses designed to balance its allies and respond to its domestic protestors also led to the selection of Japan and India as preferred developers for the upgrading of the blue-water port at Trincomalee. Japan's historical relationship with the country as a key development partner and an important source of commercial revenues could not be ignored when it made an offer to aid port developments. Although the decision was delayed when Rajapaksa's Sri Lanka People's Freedom Alliance won the election in 2019, Japanese presence remains apparent in the upgrading of Trincomalee.

CONCLUSION

China's narrative of mutual benefits embedded in the BRI's design to accomplish global economic and related security goals has produced widespread acceptance of the initiative in several countries located on its planned land and sea routes. For those willing to participate in the initiative, Beijing promises development and defence aid with apparently flexible terms to support the economic and security agendas of governments in power. Yet, the BRI is a commercial and a military venture that advances China's ability to influence emerging markets and to boost its security arrangements at the global level. The use of China's SOEs and accompanying security apparatus for implementing the BRI projects provides Beijing with extensive surveillance and influence across the BRI's path. The implementation of the BRI produces new and important economic and security imperatives for the countries on its path as well as other powers that are engaged with these countries. Furthermore, the resulting integration of markets will no doubt influence future global relations as well. Not surprisingly, the BRI's expansion has resulted in a cautious reaction among other global and competing regional powers that view the initiative as displacing their existing commercial and security arrangements. Countering moves, or rearranging of ties, because of the BRI becomes necessary for countries, which are producing new rivalries in the IOR while intensifying existing ones, such as the one between India and China.

Colombo's participation in the BRI project illustrates the complexity that surrounds the invitation of the BRI for developing economies as they attempt to take advantage of China's offer and accommodate others at the same time. No doubt, Sri Lanka requires new resources for advancing its economy under market-led framework that it adopted in the 1980s and 1990s. As a prospective middle income country and an emerging market, Sri Lanka seeks investments, or grants, for increasing its commercial infrastructure, energy supplies, and related defence technologies that allow it to take advantage of growing use of the SLOCs located in its EEZs. Simultaneously, external and internal pressures require that Colombo balances its global relationships and also respond to the demands for transparency and sovereignty from its constituencies.

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