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THREAT OF SILENT IMPERIALISM FOSTERED BY CHINESE DEBT THE SRI LANKAN CASE

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Abstract

Currently China enjoys the status of being the biggest investor in Sri Lanka. Sri Lanka witnessed a civil war which extended for 27 years. Towards the end of this war, China provided ammunition to Sri Lanka and the relation subsequently evolved into China extending substantial economic aid to Sri Lanka for infrastructure projects. The return from these projects has been poor thereby putting substantial debt burden on the country. Sri Lanka's inability to pay debt is resulting in deals like swapping debt for equity which tantamount to giving ownership or control of important assets to Chinese companies. This creeping acquisition of assets and resources in other nations under the pretext of their inability to pay debt is seen by many observers as a new form of colonialism or imperialism.

Index Terms—Sino-Lanka Relations, Hamabantota port, Imperialism, Chinese Debt, Sri Lanka

I. INTRODUCTION

Due to faster growth propelled by rapid industrialization and resulting trade expansion from eighties, China has emerged as an economic power. Sri Lanka witnessed a civil war known as Eelam Conflict which extended for 27 years. While Indian Government sent its troops to broker a peace deal in 1987, there were limits on India's engagement in view of backlash at home. Further alarmed at human rights violations, USA and European nations also reduced their aid. China quickly stepped in and supplied arms to Sri Lanka. Subsequently China continued to lend financial support by providing loans for infrastructure.
A recent incident involving Sri Lanka's inability to pay off its debt owed to Chinese firms towards building of Hamabantota port and subsequent deal to swap debt for equity and giving the port on lease to Chinese company has brought into focus the other face of Chinese soft loans.

II. CHINESE FINANCIAL ENGAGEMENT WITH SRI LANKA

The first significant deal signed between Sri Lanka and China was a $37 million Arms contract. In 2007, Sri Lankan President Rajapaksa made a seven day visit to China and signed eight deals which paved the way for large scale Chinese investments. Some of the major Chinese Investments are indicated in the Table 1:

Table 1: Major Chinese Projects in Sri Lanka*

Sl. No.	Project Name	Brief Details	Approximate Investment
1	Colombo Port City Project	Construction of a a "mini-city" on the top of reclaimed land at the country's capital Colombo with a view to develop it as a business ,tourist and destination for trade. Project was suspended in 2015 but has been resumed now.	1.4 Billion US$
2	Hambanthota Port	Hambantota Port project involves development of a deep sea water international port accompanied by an attached industrial zone. The first phase of the port project was completed in November 2010 and provides cargo handling, fuel bunkering facility as well as a tank farm project. The port also has a ship repair centre, ship building and facilities for crew change. Hambantota Port is capable of handling super-mega vessels and finally the capacity of the port will be raised to 20 million TEUs per year.	1.1 Billion US $
3	Puttalm Coal Fired Power Project	The coal fired thermal power plant of 3X300 MW (Total capacity 900 MW) Units to be built in three phases including a jetty	455 million US$
4	Colombo-Katunayake Expressway	Colombo-Katunayake Expressway (CKE) is a high-speed road link between the city of Colombo and Katunayake. Construction on the Expressway began in August 2009 and the highway was opened to traffic in October 2013.	291 Million US $
5	Mattala International airport	Mattala International Airport is an international airport currently under construction in Mattala, in the Hambantota District in the south of Sri Lanka	209 million US $
6	Hambantota Bunkering & Tank Farm Project	Re-constructing six fisheries harbours out of total 10 ten destroyed by the tsunami at Hambantota Port	15 Million US $

*Source: Information collated from website of Central Bank of Sri Lanka www.cbsl.gov.lk and other news websites.

These large-scale deals were not very transparent and generated corruption charges during the run up to Sri Lanka's General Election in 2015. President Rajapaksa's lost this election and the new incumbent promised to extract Sri Lanka from its excess reliance on China but could not do much due to weakness of country's economy and need to complete the started projects.

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III. CHINESE AIDED PROJECTS AND SRI LANKA'S BURGEONING EXTERNAL DEBT

Sri Lanka's external debt which stood at 10.6 billion USD in 2006, increased to 50.2 billion USD by 2017. With increasing reliance on Chinese funds, the composition of external debt changed significantly with a shift toward costlier and non-concessional debt. The share of commercial debt which stood at 6% of total external debt in 2006 exceeded 50 percent of external debt by 2012. This resulted in a drastic surge in interest on external debt. In May 2016 the foreign exchange reserves of the country were sufficient to only cover 80 percent of short-term external debt. At this point, the IMF agreed to provide a $1.5 billion bailout loan.

The Hambantota port (covered in detail in next section) is the most glaring example of difficult corner in which Sri Lanka has landed itself due to availing Chinese financial support and committing to projects with long gestation period. Another prestigious Sino-Lanka project "Mattala Rajapaksa International Airport" was unable to attract air traffic and only two international flights operated from the airport. Due to heavy underutilization, this airport is running into losses and Sri Lanka is unable to pay back dues to China's EXIM Bank. Ironically, Sri Lanka is currently in look out for various options for this airport and at one stage there were talks of India's interest in the airport as well.

The Expressways which were built & funded by Chinese companies too have a mixed record. The Southern Express way was extended from Matara to Hambantota without any proper assessment and on the assumption that considerable activity will pick up at Hambantota due to Airport and port and other industrial infrastructure being planned. Since there was little development in industries in the area, the economic return from these expressway extensions has been negative and there has been a significant loss. The situation at Colombo- Katunayake Expressway is better but this is also operating at about 50% of initially envisaged traffic

The Lakvijaya Power Plant, also called Norocholai Power Plant or Puttalam Coal Plant is a 900-megawatt (MW) coal-fired power plant. The Thermal Power plant is located in Puttalam district which falls under North Western Province of Sri Lanka. This plant initially comprised of two units of 300 MW each. In 2014, an additional third unit of 300 MW was added making 900 MW as the total capacity of the plant. This Power Plant which was built by China Machinery and Engineering Corporation (CMEC) is Sri Lanka's first coal fired Power plant. Ever since the commissioning of the Units, the plant has been beset with problems and has reported frequent breakdowns. As a result the Ceylon Electricity Board (CEB) has incurred significant financial loss. It was reported in 2014 by the Minister of Power and Energy to the Sri Lankan Parliament that that the power station had been offline for 271 days out of 1,086 days since commissioning in 2011.In December 2015 all three plants in the facility were offline due to multiple plant failures. There have been frequent allegations by consumer movements about cost and handling of the deal and more so the availability of the Power Plant has been very low.

The low return on these long gestation infrastructure projects coupled with commercial interest rates has pushed Sri Lanka towards a debt trap. The Sri Lankan government is left with no alternative other than to lease these assets to Chinese companies. Further most of these projects financed from Chinese debts were in developing strategic locations of the country and giving some control of those areas to China due to inability to pay debt could be part of larger game plan of China.

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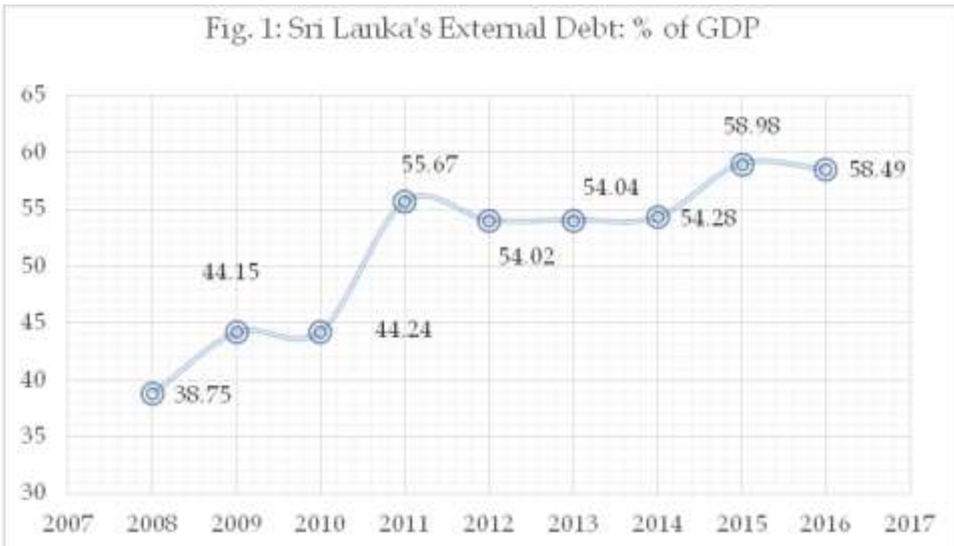
Sri Lanka's central bank chief Indrajit Coomaraswamy indicated to Reuters in October 2017 that the country was facing a debt crisis with the repayment cycle of expensive infrastructure foreign loans starting next year. The country has to repay over $5 billion in next 12 months while it has just over $7 billion in foreign exchange reserves. Credit Rating Agency Standard and Poor estimates that Sri Lanka's public-sector debt has reached 95% of GDP.



* Source: Central Bank of Sri Lanka

The present government which assumed office in the beginning of 2015, has blamed former regime led by erstwhile President Mahinda Rajapaksa for large scale borrowing from Chinese firms which has led to sharp spike in debt servicing. Sri Lanka's estimated national debt is $64.9 billion, of which $8 billion is owed to China. This can also be attributed to the high interest rate on Chinese loans.

IV. THE CASE OF CHINESE FUNDED HAMBANTOTA PORT

The Hambantota port is located strategically in southern Sri Lanka near the main shipping route from Asia to Europe and was developed as a deep-water sea port with modern infrastructure. The project which was financed by Chinese loan had a total loan component of US$ 1.35 billion. Out of that, US$ 900 million was drawn at a 2% interest rate and the remainder was at an interest rate of 6.3% to 7.65%. There was no open tendering for the port and instead bids were obtained from two Chinese Companies and one of them was selected.

The Hambantota port opened in 2010 but has been incurring losses due to lack of commercial activity. Faced with the prospect of default, Sri Lanka formally handed over the port to the Chinese company in December 2017 on 99-year lease. In return it received US$ 292 million out of a US$ 1.12 billion deal. The deal drew violent protest across Sri Lanka. An international bidding for the port could have resulted in lower initial cost and lower interest rate.

V. CONCLUSION

China has emerged as the largest investor in under developed nations. As this paper brings out, China follows a very different approach than Western countries when extending financial loans. While these loans are more easily available, they many times come at commercial rates of interest. These loans are also characterized by considerable opacity and many times guided by the desire of Chinese government to control/influence the other nation. This belief has been vindicated as part of investigations in this paper.

The Sri Lankan debt scenario provides important lessons for counties that are lured by Chinese aid. Nothing highlights the hidden risks better than the case of Hambantota port which was financed, built and managed by a Chinese firm but failed to attract ships resulting in heavy losses. The only option left with Sri Lanka was to give controlling interest to the Chinese company and lease the port to it for 99 years which tantamount to compromising its national interests and sovereignty.

Chinese aid to Sri Lanka is also to be seen in context of its strategy to gain economic and political leverage over Sri Lanka to counter India's influence and extend its maritime interests in the Indian Ocean. Further it should be visualized as part of its broader strategy of influencing low income countries that are either of strategic interest or can help it in its projects like 'Silk Road' or "Belt Road Initiatives". The paper shows that that China uses sovereign debt to gain influence and exclusive access to assets. The loans China offers are hard to resist for small counties as they promise total transformation of their economy. The study amply brings out the fact that these projects were shrouded by considerable opacity, bypass accepted international bidding mechanisms resulting in high cost. World leaders are increasing seeing through the designs of China under the garb of economic aid and Belt Road Initiatives (BRI). The paper brings out that fears of a new kind of silent imperialism practiced by China which is fuelled by a liberal dose of debt to those in dire need are not unfounded. These finding find echo in recent statements by US Secretary of State, Rex Tillerson as he likened BRI to European colonialism.

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