

China in Sri Lanka and the Political Economic Crisis

SMA Speaker Series

Asanga Abeyagoonasekera - 2nd August 2022

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- Economic Crisis
 - Liquidity issue
 - Insolvency issue

Sri Lanka's shrinking forex reserves

The debt-laden island nation is facing a deepening foreign exchange reserve crisis amid rising inflation and a depreciating currency.

Gross forex reserves (US\$)



Note: Data as on the end of each month (till Mar. 2022)

Source: Central Bank of Sri Lanka

Reuters Graphics

World News

Published on Jul 21, 2022 07:55 AM IST

China's debt trap diplomacy is believed to have become a major cause of Sri Lanka's unprecedented economic crisis as it failed to take better steps to restructure its debts in dialogue with the IMF.



CIA chief Bill Burns. (Twitter)

‘Opaque’ loans from China hurt Sri Lanka: USAID Administrator



Kallol Bhattacharjee

NEW DELHI JULY 28, 2022 01:15 IST

UPDATED: JULY 28, 2022 01:56 IST

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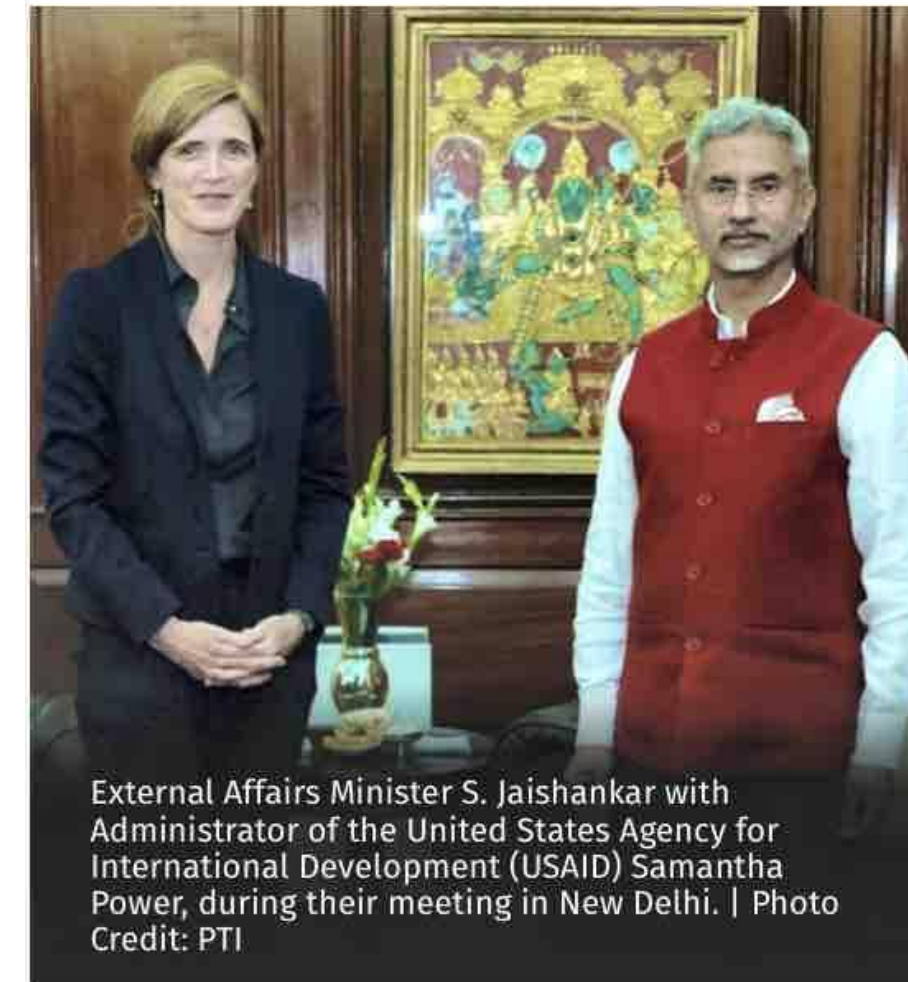


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External Affairs Minister S. Jaishankar with Administrator of the United States Agency for International Development (USAID) Samantha Power, during their meeting in New Delhi. | Photo Credit: PTI

Samantha Power cautions against forces that "seek to sow divisions"

"Opaque" loans for "headline-grabbing" infrastructure projects, were among the factors behind the current crisis that has engulfed Sri Lanka, said Samantha Power, Administrator, United States Agency for International Development (USAID), on Wednesday. Delivering a speech at the IIT-Delhi, Ms. Power praised India's "swift" action in response to the emergency in Sri Lanka and argued that India's strength especially in

the field of tackling food security threats, was nurtured over the past seven decades in partnership with the United States. Ms. Power cited the Upanishads and urged India to play a greater role in the world in tackling hunger and poverty, which have intensified in the backdrop of the Ukraine crisis. She made a strong pitch in favour of "pluralism and tolerance" saying there are "forces in the United States and India who seek to sow divisions, who seek to pitch ethnicities and religions against each other".

Debt crisis

J.P. Morgan analysts estimate the country's gross debt servicing would amount to \$7 billion this year, with the current account deficit coming in around \$3 billion.

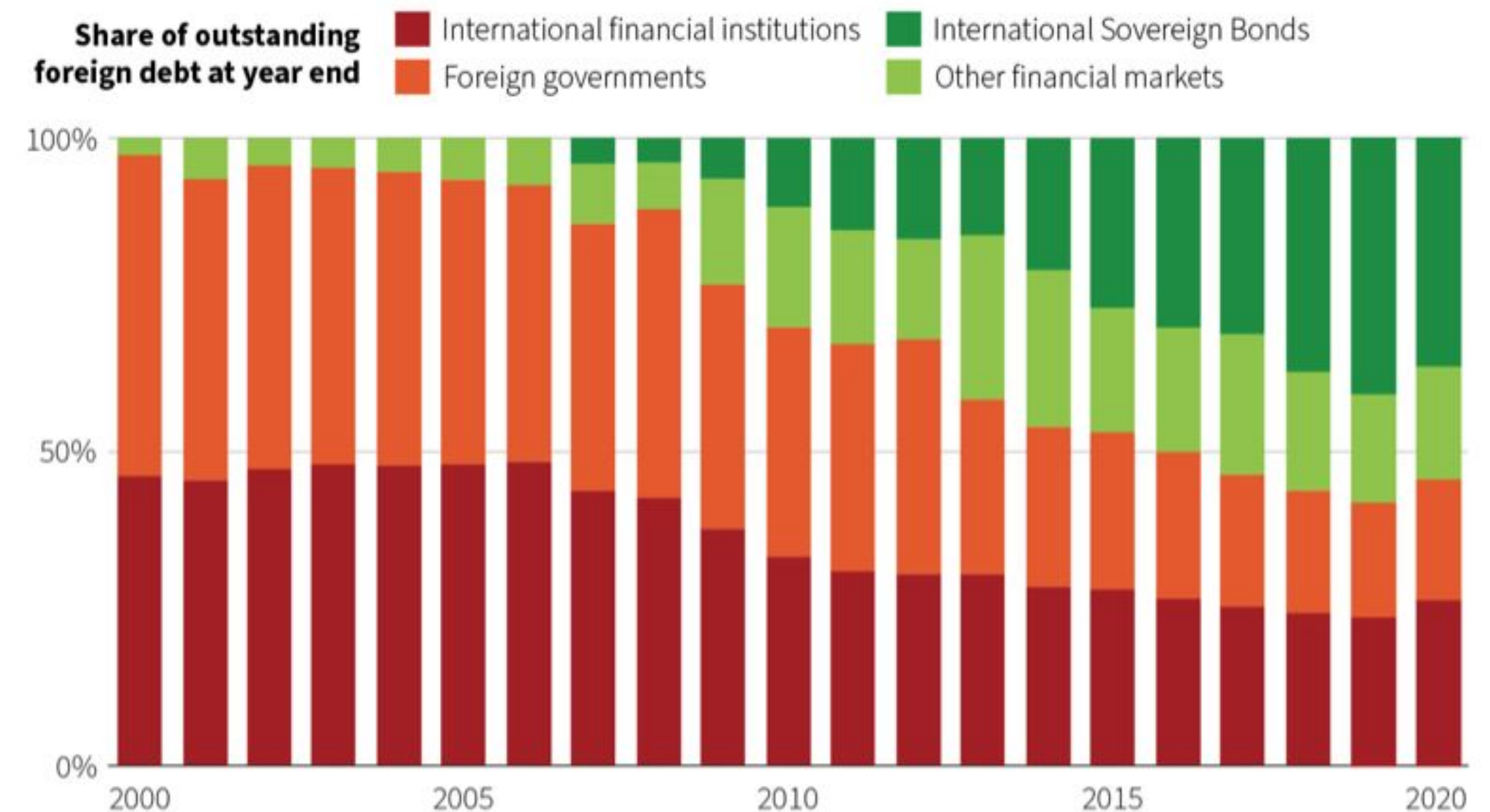
sovereign debt default and is exposed to external shocks.

President Rajapaksa asked China to restructure repayments on around \$3.5 billion of debt owed to Beijing, which in late 2021 also provided Sri Lanka with a \$1.5 billion yuan-denominated swap.

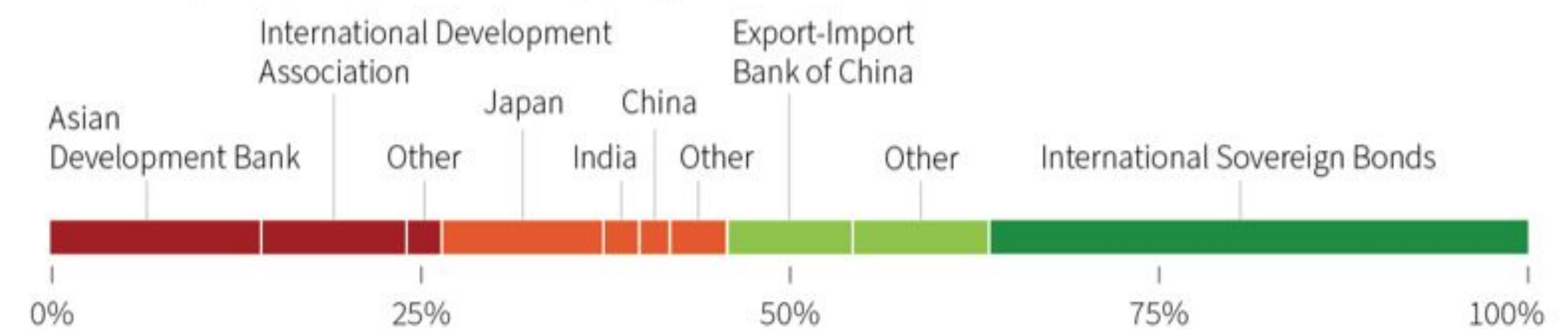
Sri Lanka's current debt-to-GDP ratio has skyrocketed in recent years, increasing from 42% in 2019 to **104%** in 2021

Sri Lanka's foreign debt

Repeated cycles of borrowing from capital markets, including the International Sovereign Bonds, have made them the largest source of foreign funding for Sri Lanka.



Ownership of Sri Lanka's outstanding foreign debt in 2020



Source: Central Bank of Sri Lanka

V. Kawoosa, 17/01/2022

REUTERS

Pandemic time

- Tourism income
- Remittances
- Tax cuts by nearly half
- Quick structural adjustment - constitutional amendment the 20th Amendment
- External Factors - Easter Sunday terror attack, Pandemic, Ukraine

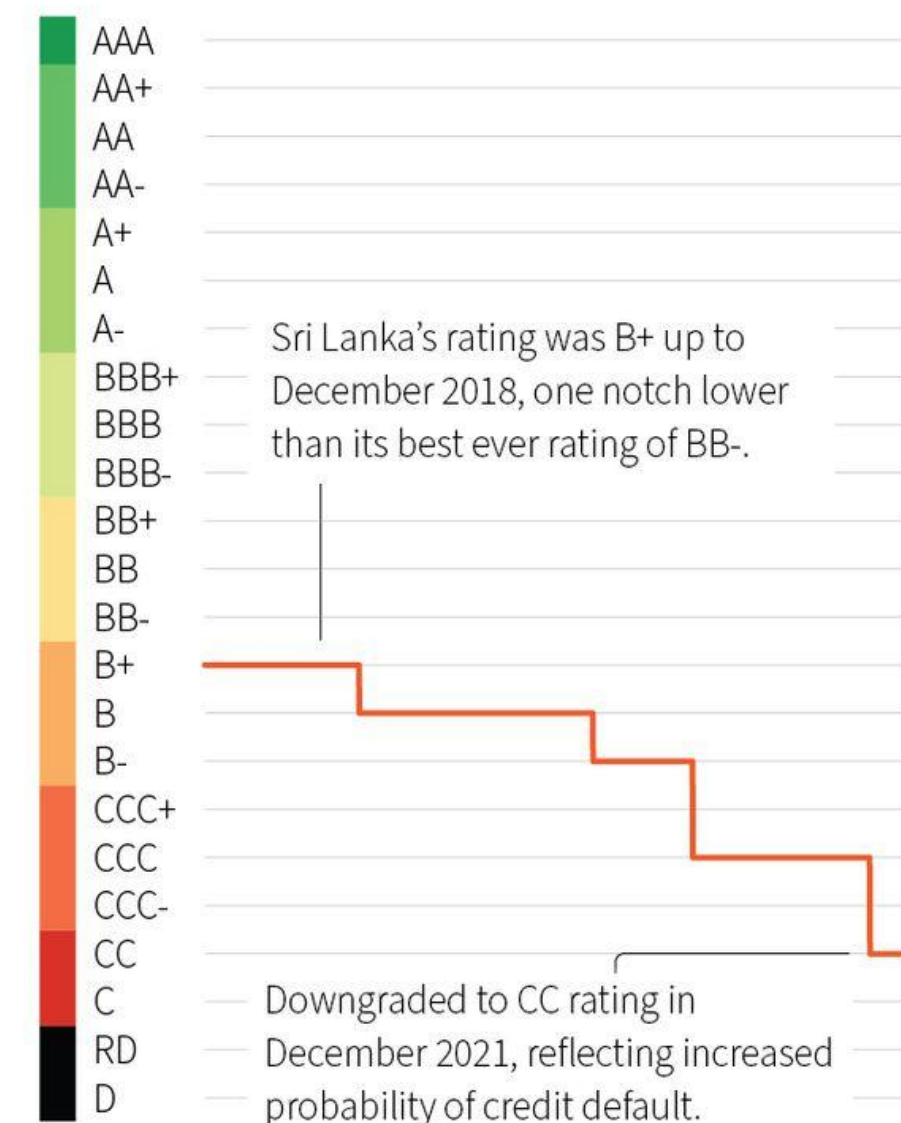
Sri Lanka's falling credit score

The debt-laden island nation is struggling to fill its shrinking foreign currency reserves and raise funds from the international capital markets after a series of credit rating downgrades. Credit ratings are an independent assessment of a country's creditworthiness and an indication of the risk associated with lending money to it.

CREDIT RISK

Lowest  Highest  In default

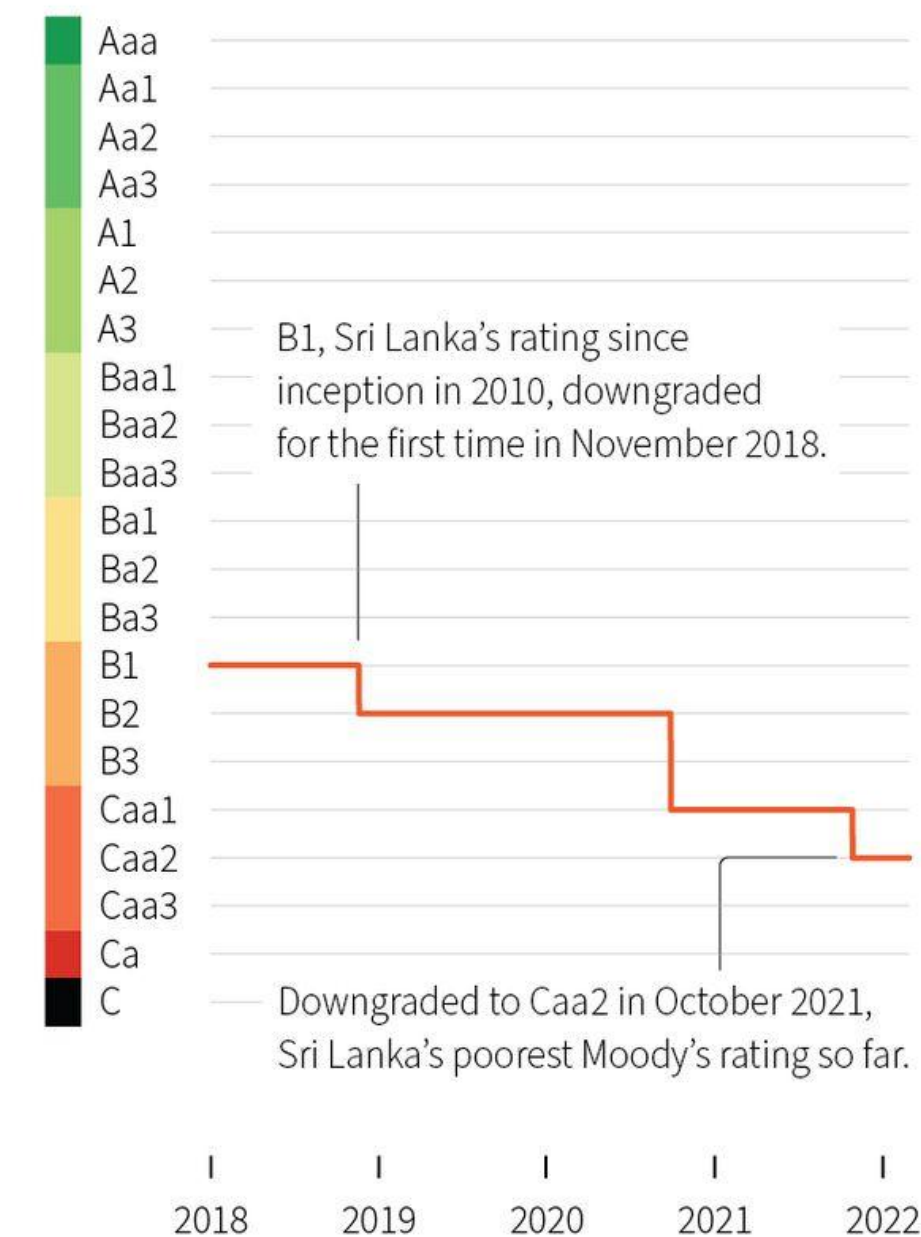
Fitch Ratings



Sources: Fitch Ratings; Moody's.

V. Kawoosa, 24/02/2022

Moody's



REUTERS

Reasons to ignore the early warnings

- Gov ultra-nationalistic inward policies
 - Import subsidization - Export orientation
 - Heavy militarization - DG of essential service to 28 military appointments
 - Democratic backsliding
 - Rejection of early warnings

Date	Description	Institution/Body	Sector/Thematic Area	Type of Action	Position/Designation
2019-11-19	Major General Kamal Gunaratne has been appointed as Defense Secretary	Ministry of Defence	Defence	Appointment of a military official (retired)	Ministry Secretary
2019-12-04	Retired Major General Jagath Alwis appointed as Chief of National Intelligence Service	National Intelligence Service	Defence	Appointment of a military official (retired)	Chief
2019-12-18	Major General (Rtd.) G.A. Chandrasiri appointed the new Chairman of the Civil Aviation Authority of Sri Lanka	Civil Aviation Authority	Civil Aviation	Appointment of a military official (retired)	Chairman
2019-12-19	Admiral Prof. Jayanath Colombage appointed Additional Secy. to President for Foreign Relations	President's Office	Foreign Relations	Appointment of a military official	Additional Secretary
2019-12-23	Former Army Commander Major General Daya Ratnayake made chairman of the Sri Lanka Ports Authority	Sri Lanka Ports Authority	Ports Authority	Appointment of a military official	Chairman
2020-01-03	Maj. Gen. (Rtd.) Sudantha Ranasinghe has been appointed as the Director General of the Disaster Management Centre (DMC).	Disaster Management Centre (DMC)	Disaster Management	Appointment of a military official (retired)	Director General
2020-01-24	Major General (Rtd.) Nanda Mawararachchi assumed duties as the Director General of the Department of Multi-Purpose Development Task Force	Department of Multi-Purpose Development Task Force	Development	Appointment of a military official (retired)	Director General
2020-01-14	Major General Darshana Hetiwarachchi was appointed as the Rehabilitation Commissioner General	Bureau of Commissioner General Rehabilitation	Rehabilitation	Appointment of a military official	Commissioner General
2020-02-24	Sri Lanka Corps Military Police personnel deployed to assist the Colombo City Traffic Division			Deployment of Military Personnel	N/A
2020-02-25	Maj. Gen. Vitha Ravipriya appointed Customs DG	Sri Lanka Customs	Trade	Appointment of a military official (retired)	Director General
2020-03-18	Acting Chief of Defence Staff Army Commander Lt. Gen. Shavendra Silva appointed as Head of National Ops. Centre to counter COVID-19	National Operation Centre for Prevention of COVID-19 Outbreak (NOCPCO)	Health	Appointment of a military official	Head
2020-03-24	Former Air Force Commander Roshan Goonetilleke appointed Western Province Governor	Governor's Office		Appointment of a military official	Governor
2020-03-28	Retired Maj. Gen. Sumedha Perera appointed Poverty Eradication Task Force Co-Chairman	Task Force for Poverty Eradication and Livelihood Development	Development	Appointment of a military official (retired)	Co-Chairman
2020-04-16	Appointment of Capt. Themiyā Abeywickrama as the Director General of Civil Aviation/Chief Executive Officer	Civil Aviation Authority	Civil Aviation	Appointment of a military official	Director General
2020-04-22	One-fifth of the members of the presidential task force formed for post-COVID economic response are from the armed forces	Presidential Task Force in charge of Economic Revival and Poverty Eradication	Economy	Appointment of a military official, Appointment of a military official (retired)	Head Members
2020-04-27	Army replaces police for external security of the parliamentary premises	Parliament	Security	Deployment of Military Personnel	N/A
2020-05-11	Major General Sanjeewa Munasinghe, the Director General of Army Health Services, assumed duties as the new Health Secretary.	Ministry of Health	Health	Appointment of a military official	Ministry Secretary
2020-05-11	Retired Major General Sumedha Perera appointed as Secretary to the Mahaweli Ministry	Ministry of Mahaweli, Agriculture, Irrigation and Rural Development (Irrigation Sector)	Agriculture, Development	Appointment of a military official (retired)	Ministry Secretary
2020-05-23	Proposed Presidential Task Force headed by the Defence Secretary to protect archaeological sites	Presidential Task Force for Archaeological Heritage Management in the Eastern Province	Archaeology	Appointment of a military official	Head
2020-06-02	Establishment of a Presidential Task Force for Archaeological Heritage Management in the Eastern Province	Presidential Task Force for Archaeological Heritage Management in the Eastern Province	Archaeology	Appointment of a military official	Members
2020-06-02	Establishment of a Presidential Task Force to build a Secure Country, Disciplined, Virtuous and Lawful Society	Presidential Task Force to build a Secure Country, Disciplined, Virtuous and Lawful Society	Law and Order	Appointment of a military official, Appointment of a military official (retired)	Head Members
2020-10-18	Retired Major Anura Pandithage appointed as CEO of Lanka Sathosa	Lanka Sathosa Limited	Provisions	Appointment of a military official (retired)	Head
2020-10-18	Wing Commander Primal Paragahawatta (Rtd.) appointed as DGM – Human Resources and Administration of Lanka Sathosa	Lanka Sathosa Limited	Provisions	Appointment of a military official (retired)	Deputy General Manager
2021-01-01	Appointment of senior army officials to each district for the coordination of COVID-19 prevention measures	National Operation Centre for the Prevention of COVID-19 Outbreak	Health	Appointment of military officials	Head Members
2021-06-19	Rtd. General Daya Ratnayake appointed as the new Secretary to the Ministry of Industries	Ministry of Industries	Commerce	Appointment of a military official (retired)	Ministry Secretary

- Foreign Affairs

- Economy

- Health

- Law and Order

- Trade and Commerce

- Disaster Management

- Ports

- Civil Aviation

- Agriculture

- Archeology

- Provisions -Sathosa stores

- Department of Multi Purpose Development Task Force

- Task Force of Poverty Eradication and Livelihood Development

- Task Force Economic Revival

- Beureau of Commissioner General Rehabilitation

Military in 15 Key Sectors

Sudden Rupture

- Fragile state -> Crisis state
- Economic Crisis -> Political Crisis with public protest
- Deaths at long lines for fuel / Power cuts 10 hours
- Started from the president's residence - Social Media to all island
- Is it an Arab spring? - 3 attributes
 - Autocracy
 - Corruption
 - Poverty



#GoHomeGota -> Post Rajapaksa regime

- No Family Rule
- Immediate resignation of all 26 cabinet members
- Reappointment 4 cabinets in 3 months
- Protestors want new faces - rejection of the corrupt
- There is an effort to align with protestors but fails
- There is a clear gap between protestors' demands and their narrative compared with the government.
- New President appointed by Parliament for the remaining term - no people's mandate, alignment to the previous regime, same security administration officials

Crackdown of protest

- Emergency Rule
- Crackdown on protest
- Ambassador of the United States to Sri Lanka [Julie Chung says](#) she called on President Ranil Wickremesinghe to express her grave concern over the “unnecessary and deeply troubling” escalation of violence against protesters overnight.

"Unnecessary use of brute force will not help this country and its international image," said the nation's Bar Association leader, Saliya Peiris, in a statement.



Members of Sri Lankan security outside the Presidential Secretariat on Friday

The British High Commissioner to Sri Lanka, Sarah Hulton, also expressed concerns about the reports from the protest site.

"We have made clear the importance of the right to peaceful protest," she tweeted.



July 23, 2022

0 Comment

US envoy tells Lankan president: “This is NOT the time to Crack down”

Sri Lanka Crisis - China

- China was not the only concern but a considerable issue
- Autocratic Model — > Heavy push factor from China to alter the model
- CPC and SLPP model - Human Rights issue
- Foreign Policy tilt to China
- Think Tank Level Support - Confucius Centers to private think tanks
- Chinese loans 10% or 20% - Opaque and non transparent
- Interest rate - some above 6%
- No EIA clearance was properly done
- Heavy corruption
- Civil-Military Nexus in Projects

Debt trap diplomacy - Strategic-trap diplomacy

- Heavy dependency on China - More borrowings during the Pandemic
 - China bandwagoning foreign policy
- The debt trap only looks at quantitative data and does not capture the strategic depth of Chinese engagement
- Debt trap debunking theories incorrect. My reply published in Sweden ISDP
- First, they have not seen the 99-year lease. All on assumption
- Second, the loans were high interest 6.4%, non-transparent, no proper EIA
- Third, business models are not generating the expected revenue
- Fourth, military vessels can't come, incorrect.

- China on Sri Lankan Debt Restructuring

According to the Central bank, Chinese debt stands at 10% of the country's \$35.1 billion in external debt. [Umesh Moramudali](#) a Sri Lankan researcher says “**Sri Lanka’s [debt] to Chinese creditors comes about 20%, not 10%.** So, all these 20% will have to be restructured. That means you’ll have to look at how China Development bank will deal with restructuring and China’s Exim bank will deal with restructuring,”.

Senior scholar [Raja C. Mohan](#) questions “ is China ready to accept international rules to facilitate the IMF and Paris club deal? How they get bridged in the coming days is a concern. Many countries including Zambia are facing this issue. There has to be some understanding between creditors and international institutions”.

● Debt trap diplomacy - Strategic-trap diplomacy

- China's involvement in Political space SLPP-CCP, funding, and supporting the autocratic regime

- HR - Reciprocal support

- Military and surveillance



XINHUANET



Interview: No evidence of genocide or detention camp in Xinjiang, says Sri Lanka's foreign secretary

Source: Xinhua | 2021-02-12 19:27:22 | Editor: huaxia



COLOMBO, Feb. 12 (Xinhua) -- Sri Lanka's Foreign Secretary Admiral Jayanath Colombage said that there is no evidence to support claims by some western politicians that "genocide" was committed against the Uighur community in China's Xinjiang.



BRI in Sri Lanka

‘Sri Lanka was a most **highly publicized case**’ according to Elizabeth C. Economy’s book *The World according to China* ‘in which the **country could not service its debt and instead granted China a 99-year lease** on its Hambanthota port’.

Its political elites made such **irrational decisions calculating their political survival** and China took clear advantage of the **fragile and corrupt political system** in Sri Lanka.

The newly elected Prime Minister Dinesh Gunawardena highlighted the danger and China’s strategic aspiration when he was the foreign minister on the Hambanthota agreement **“It says the 99-year lease can extend for a further period. Which means it can go on for any number of years after 99 years or for another 99 years”**. Even today as the new Prime Minister he knows he could never revisit this agreement nor investigate any Chinese project on corruption. There was a

China signs 99-year lease on Sri Lanka’s Hambantota port

Critics denounce move as an erosion of country’s sovereignty



For Beijing the Hambantota port project is a linchpin of the 'One Belt One Road' initiative © AFP

Kiran Stacey in New Delhi DECEMBER 11 2017



Sri Lanka has formally handed over its southern port of Hambantota to China on a 99-year lease, which government critics have denounced as an erosion of the country’s sovereignty.

2022-04-26 by Asanga Abeyagoonasekera



Sri Lankan Crisis between Debt-trap and Strategic-trap: The Chinese Stake



China in Sri Lanka and Solomon Islands: Role of Littorals in the Geopolitical Competition

Aut



Image Credit: Gilmore Tana

Chinese infrastructure diplomacy

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China-Built Port City Plan Challenged in Sri Lanka's Top Court

By [Anusha Ondaatjie](#)

April 20, 2021, 1:42 PM GMT+5:30

- ▶ Supreme Court hearing petitions against Port City Commission
- ▶ Sri Lanka government hopes project to spur growth, investment

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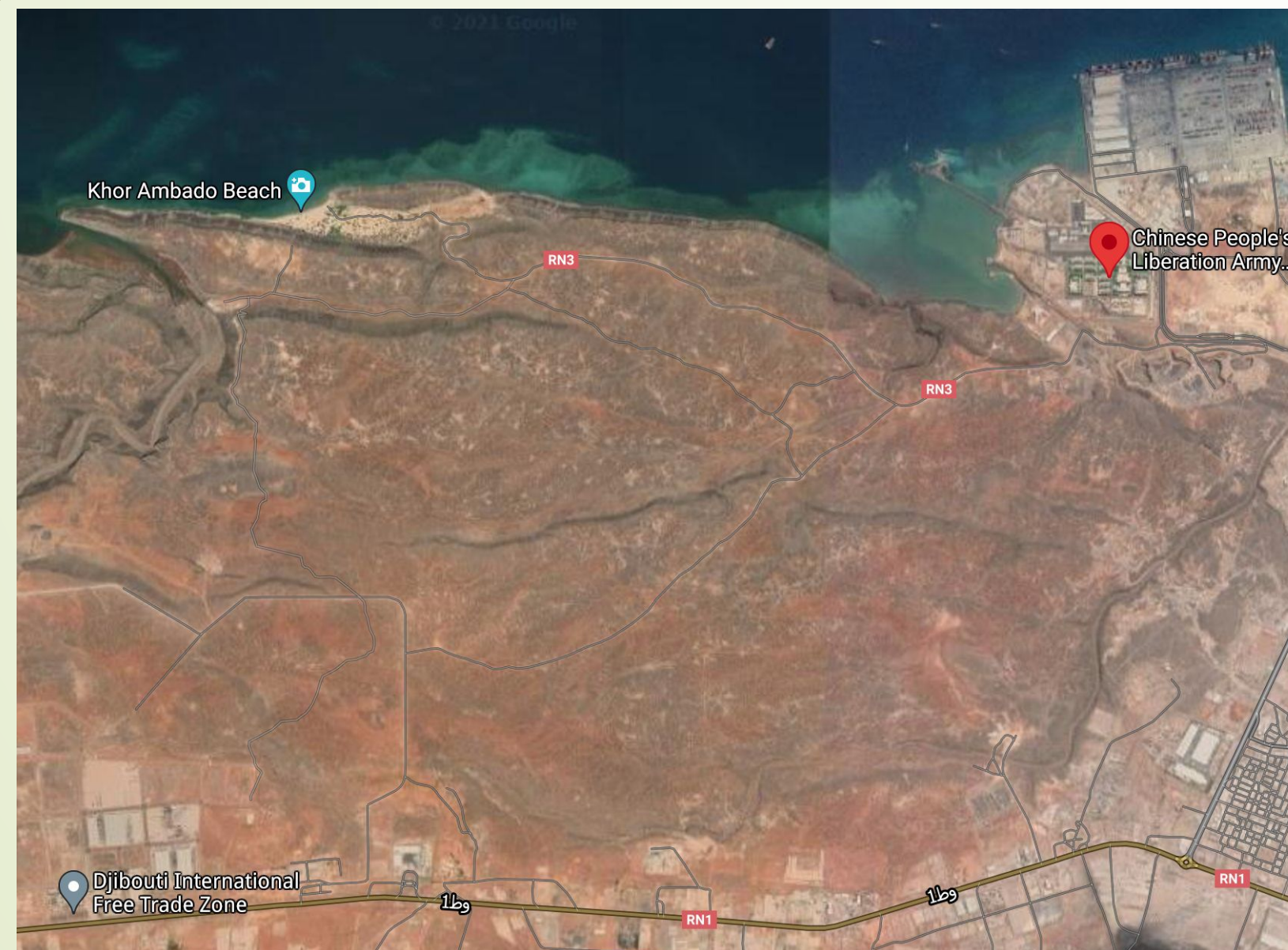
Bloomberg
Television



Country	Public and hidden Debt exposure to China	Value of Chinese construction contracts in BRI	Support for Chinese stances on Hong Kong National Security Law	Support for Chinese stances on South China Sea Arbitral ruling	Support for Chinese stances on Xinjiang policies	Support for Chinese stances on Huawei 5G
Sri Lanka	>10%	10.01B	Yes	Yes	Yes	Yes
Pakistan	>20%	49.38B	Yes	Yes	Yes	Yes
Bangladesh	>7%	22.94B	Yes	Yes	abstained	Yes
Myanmar	>5%	3.33B	Yes	Neutral	Yes	Yes
Maldives	1-5%	1.12B	abstained	abstained	abstained	Yes
Nepal	1-5%	2.57B	Yes	abstained	Yes	Yes
Afghanistan	1-5%	210m	abstained	Yes	Abstained	Yes

Table Source: <https://www.aei.org/china-global-investment-tracker/> ; <https://asia.nikkei.com/Spotlight/Belt-and-Road/385bn-of-China-s-Belt-and-Road-lending-kept-undisclosed-report> ; <https://thediplomat.com/2020/10/2020-edition-which-countries-are-for-or-against-chinas-xinjiang-policies> ; <https://thediplomat.com/2016/07/who-supports-china-in-the-south-china-sea-and-why/>

SEZ or Overseas Economic and Commercial Cooperation Zones (OECCZ) are the primum principium of “[building a nest to accommodate the Phoenix](#)”, according to Lin Yifu, Chief Economist and former Senior Vice President of the World Bank. It was Lin [Yifu who convinced](#) former Ethiopian President Meles Zenawi and submitted a report to Omar Guelleh, the President of Djibouti to follow the OECCZ model. Has all these Chinese OECCZ in Africa and elsewhere considered the host countries’ needs?



RAISINA DEBATES |
MAY 01 2021

Before the phoenix nest: Questions surrounding the port city of Colombo

ASANGA ABEYAGOONASEKERA



Debt trap - Strategic trap

Dr. Ganeshan Wignaraja a Sri Lankan economist argues ‘there is no debt trap’.

However, the same author argues in a recent article “Sri Lanka is not in a Chinese debt trap but could be at risk in the future if unfettered borrowing on commercial terms were to continue.”.

My assessment has been, that the economic quantitative projection falls short in capturing the strategic depth of these projects. The Chinese projects have a long-term strategic design which could easily bring a ‘hybrid model’ of civil-military activity to the country, a security concern for Sri Lanka and the region.

One cannot dismiss the scenario in a future date Sri Lankan government will be told by China, that Chinese priority in the Indian Ocean is to secure its infrastructure and maintain and contribute to maritime security. Just like Djibouti, Sri Lanka is vulnerable due to its strategic location and economic dependency towards China

Sovereignty and National Security for MCC/ SOFA/ACSA/ECT but not for Chinese Projects?

Port Trade Unions to meet President over ECT

Saturday, 25 July 2020 00:16 - 261

in LinkedIn

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* Sri Lankan government decides not to sign MCC agreement

Fri, Feb 28, 2020, 12:35 pm SL Time, ColomboPage News Desk, Sri Lanka.



Feb 28, Colombo: The Cabinet of Ministers has decided to suspend the signing of the Millennium Challenge Corporation (MCC) agreement after considering the recommendations made by the committee appointed to review the agreement, co-cabinet spokesman Minister Bandula Gunawardena said.

The Minister made this announcement at the press briefing held at the Government Information Department today (28) to announce cabinet decisions.

Huawei 5G

“Can you imagine Reagan and Thatcher having a conversation in the 1980s saying: Let’s have the KGB build our telecommunications systems because they’re giving us a great discount?” commented Matthew Pottinger, US National Security Advisor at the Raisina Dialogue in New Delhi. The discount offered by Huawei has won every stage of its mobile network expansion in developing nations like Sri Lanka.

80% of Sri Lankan telecommunication backbone is on Chinese hardware.

Surveillance and Security for Police and Law and order.

Pathfinder and Huawei in strategic partnership to develop ICT

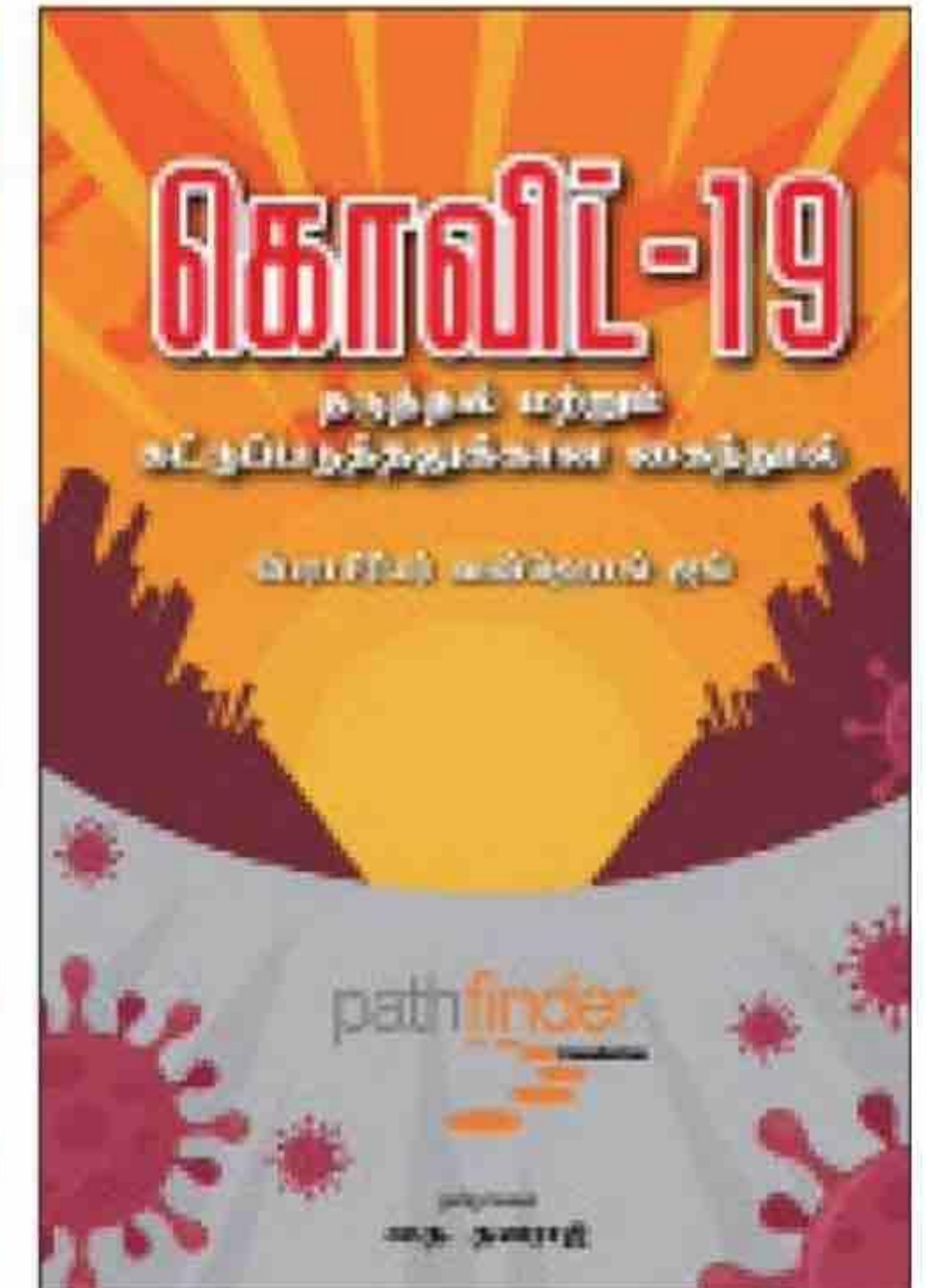
Monday, 9 November 2020 02:08 - 290



Pathfinder Advisory Services Ltd. recently signed a memorandum of understanding (MoU) with the world's leading information and communication technologies (ICT) solutions provider Huawei, to establish a framework to encourage and develop ICT in Sri Lanka.

The partnership will enable the two institutions to achieve a deeper understanding of the possibilities that ICT technologies will open up for Sri Lanka.

"We are excited to work with the world's leading ICT solutions provider Huawei in shaping future ICT technologies for Sri Lanka through cutting-edge technologies. Our constant effort is the development of communication technologies to ensure Sri Lanka stays ahead in digitalisation with the latest technologies," said Pathfinder Advisory Services Chairman Bernard Goonetilleke, who is also the Chairman of the Pathfinder Foundation.



During the first wave of the COVID-19 pandemic in Sri Lanka, earlier this year, the China-Sri Lanka Cooperation Studies Centre (CSLCSC) of the Pathfinder Foundation (PF) translated and published the Chinese book 'Prevention & Control of COVID-19' to Sinhala and presented copies to senior officials of the Ministries of Education, Health, etc. The book features a range of easy to understand, practical, scientific and targeted information that assists people in following protocols that will prevent and control the spread of the virus.

Chinese submarine docks in Sri Lanka despite Indian concerns

By Shihar Aneez, Ranga Sirilal

3 MIN READ



COLOMBO (Reuters) - Sri Lanka has allowed a Chinese submarine and a warship to dock at its port in the capital Colombo, officials said on Sunday, despite concerns raised by India about China’s warming relations with the Indian Ocean island nation.

Submarine Changzheng-2 and warship Chang Xing Dao arrived at the port on Friday, seven weeks after another Chinese submarine, a long-range deployment patrol, had called at the same port ahead of a visit to South Asia by Chinese President Xi Jinping.

“A submarine and a warship have docked at Colombo harbour. They called on Oct. 31 and will be here for five days for refuelling and crew refreshment,” Sri Lankan navy spokesman Kosala Warnakulasuriya said.

* Questions raised about possible Chinese military presence in Sri Lanka

Tue, Jun 22, 2021, 10:59 pm SL Time, ColomboPage News Desk, Sri Lanka.



June 22, Colombo: Questions have been raised about the presence of uniformed Chinese individuals at a local development project in Southern Sri Lanka to clean ancient irrigation tanks.

The Chinese individuals wearing uniforms that are very much similar to those worn by soldiers in China’s People’s Liberation Army, have been seeing roaming at a civil operation to dredge and clean the ‘Tissamaharama Wewa’ in southern Sri Lanka, the NewsFirst reported today.

The report recalled that attempts made to adopt the MCC or Millennium Challenge Corporation agreement, which would permit US military boots on Sri Lankan soil, were shot down due to serious public outcry over the recent years.

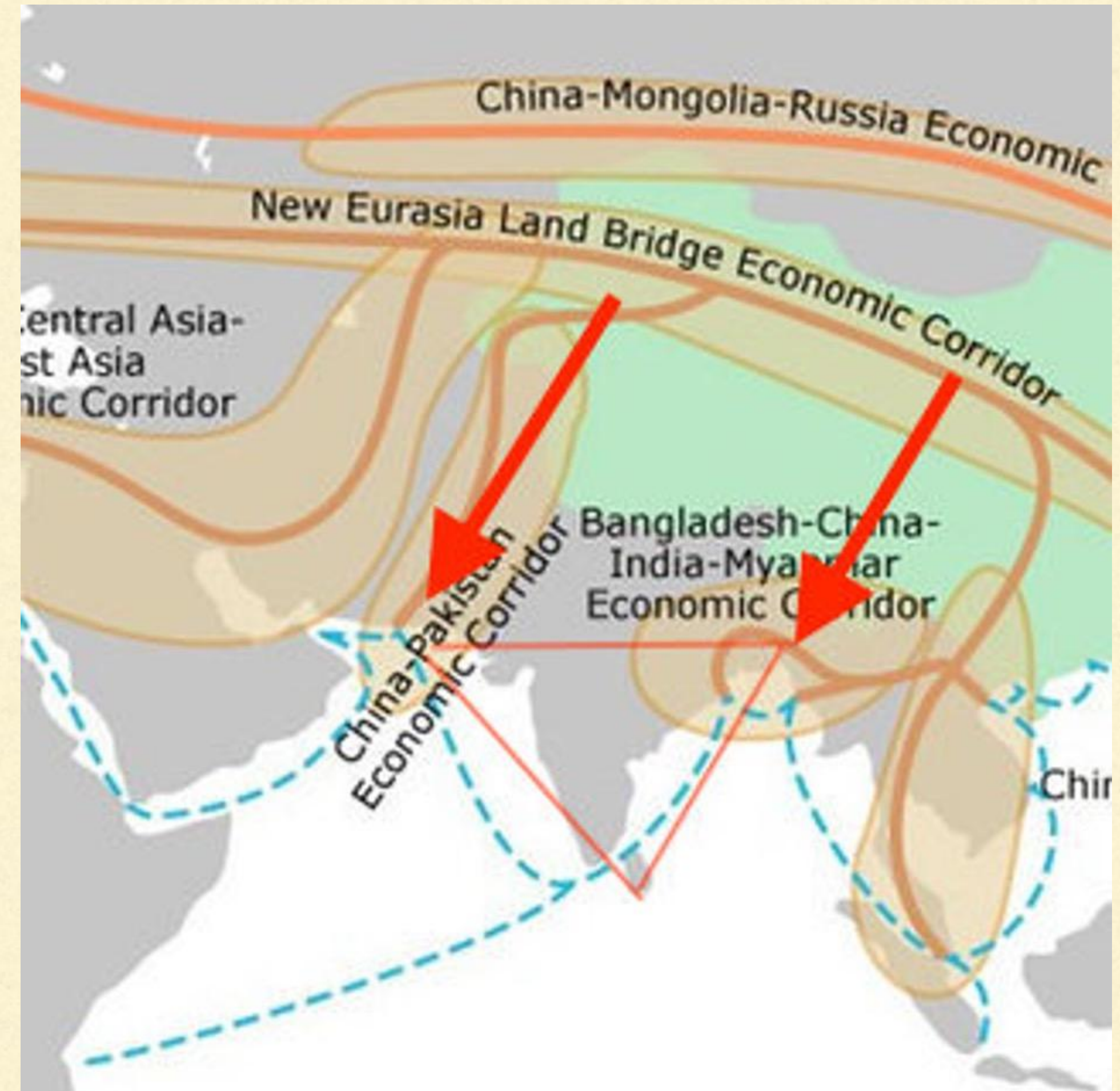
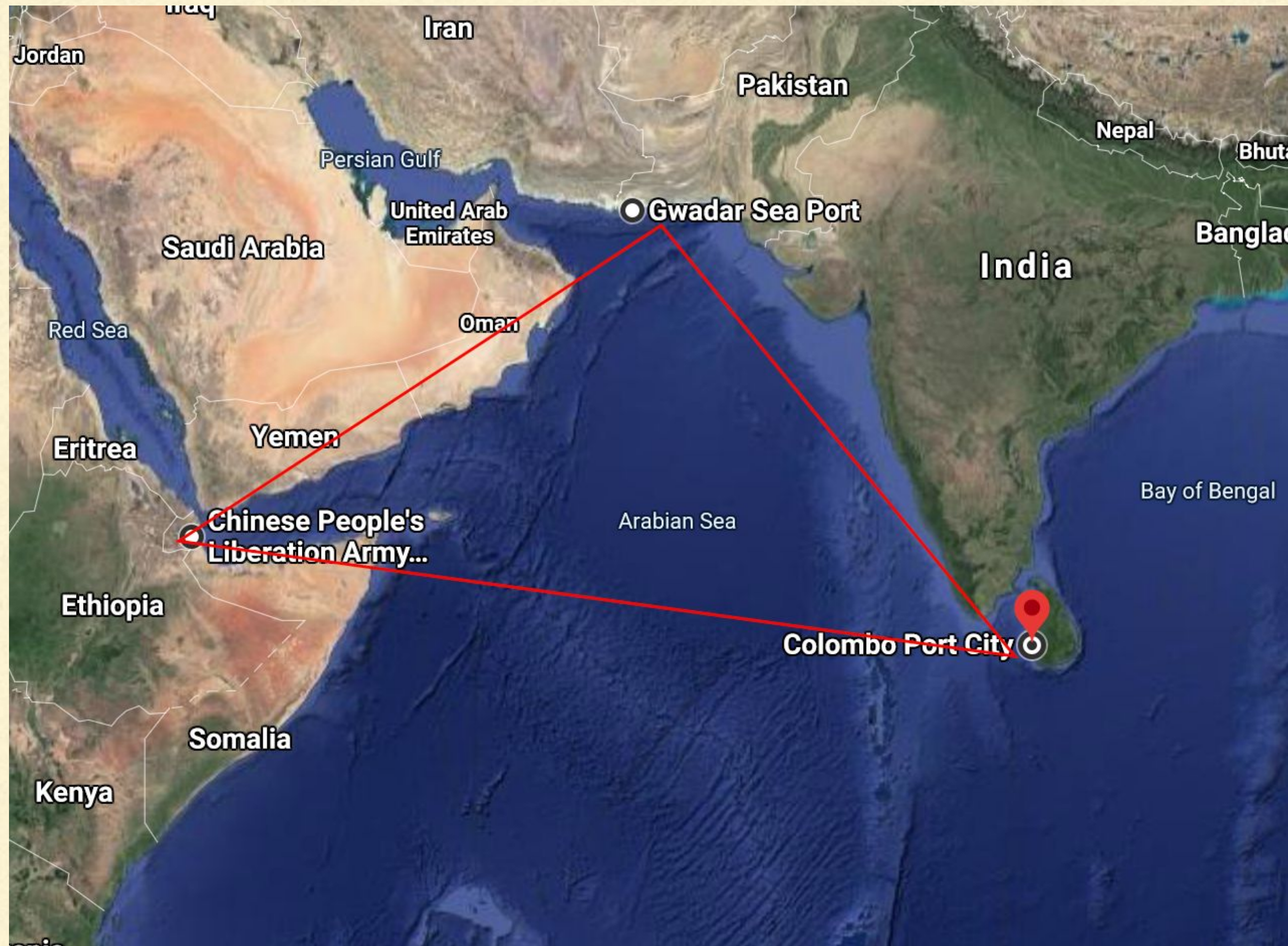
Will the Chinese ship set to dock at Sri Lanka’s Hambantota port be able to spy on India?

A Chinese research vessel, Yuan Wang 5, is headed to Sri Lanka and is expected to dock at the Hambantota port in mid-August. The ship is expected to make the stop for ‘replenishment’ but India has legitimate security concerns

FP Explainers | August 01, 2022 15:41:00 IST



MARINE SPHERE & GEO SPHERE

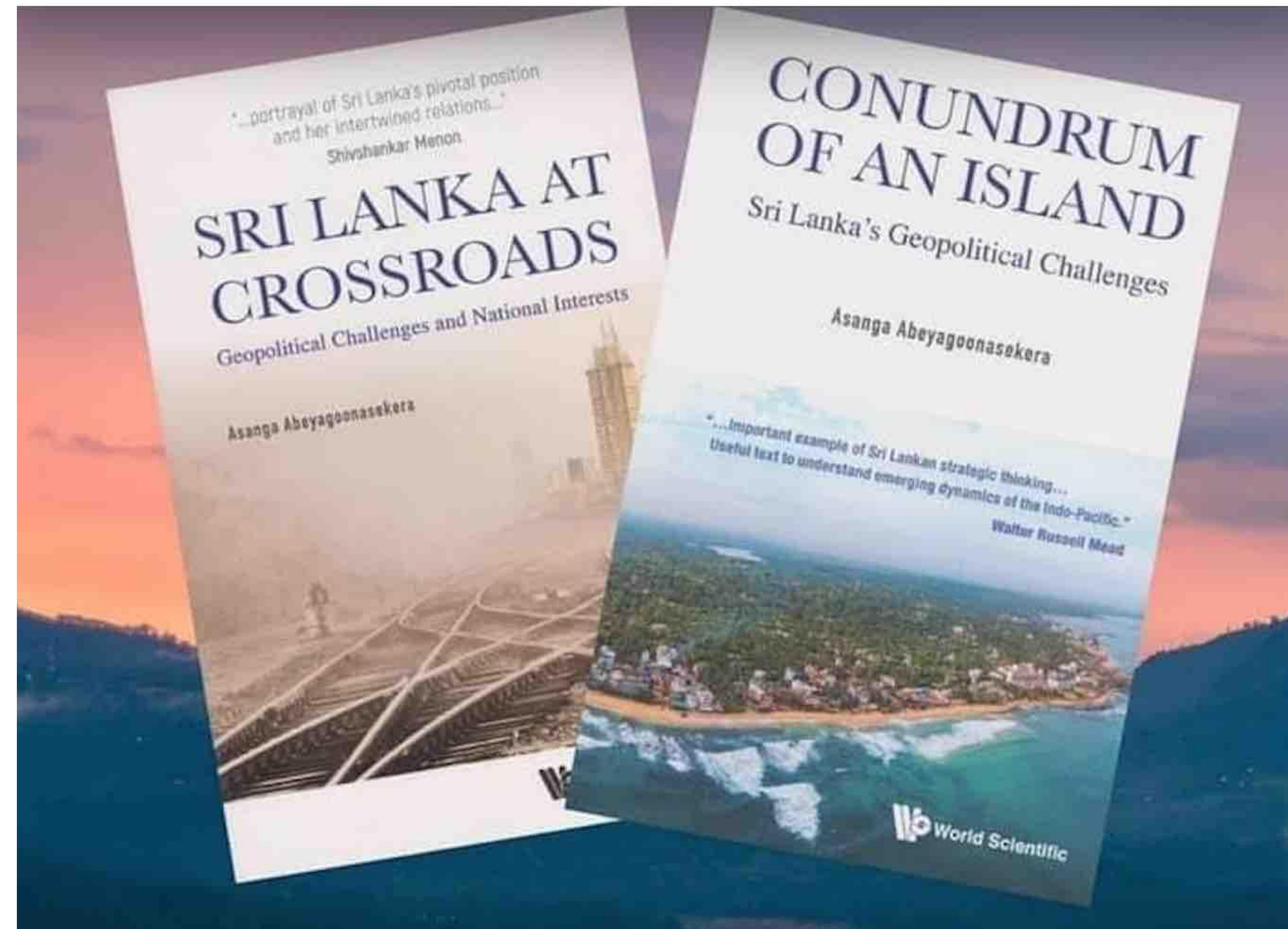


Recommendations

- Economic assistance and political assistance - India provided USD4b and US
- Country-specific commitment towards a rules-based order - FOIPS - Indo-Pacific
- Indo-Pacific narrative high note in Washington but passive in nations like Sri Lanka
- Recalibration of Sri Lanka's foreign policy - balance - rules-based order
- Tool kit - BRI projects - improve processes - ASPI BRI Toolkit
- Values of Democracy, Human Rights, fighting Corruption, and support towards regional stability.

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