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BY SAMEER LALWANI (<https://amti.csis.org/author/slalwani/>) | JUNE 18, 2015 (<https://amti.csis.org/stirred-but-not-shaken-sri-lankas-rebalancing-act/>)
INDIAN OCEAN (<https://amti.csis.org/category/indian-ocean/>), SRI LANKA (<https://amti.csis.org/category/sri-lanka/>)

Shortly after President Maithripala Sirisena's surprise victory in Sri Lanka's January Presidential election, the new leader suspended one of the largest Chinese-led infrastructure investments in the country—the \$1.5 billion Colombo Port City—and caught the Chinese government off guard. Seemingly in denial, Chinese officials and the media echo chamber downplayed this move as a minor speed bump in the relationship. Three months later, however, the project remains suspended (<http://nation.lk/online/2015/06/13/port-city-downsizes/>) and its fate hangs in the balance as a review committee weighs concerns over Sri Lanka's environment, rule of law, and sovereignty.

China's inability to move the project forward is not for a lack of trying. Following Sirisena's visit to Beijing in late March, Chinese media reported one Chinese official declared the suspension was “temporary,” Sri Lanka's objections had been “sorted out

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(<http://www.reuters.com/article/2015/03/26/us-china-srilanka-idUSKBN0MM0KB20150326>), and that Sri Lanka had “promised” to continue with construction. Other media outlets began to echo this as fact until a Sri Lankan external affairs minister denied (<http://www.tamilguardian.com/article.asp?articleid=14203>) it, emphasizing nothing had been decided. An opinion piece (<http://www.globaltimes.cn/content/914051.shtml>) appearing in China's *Global Times* titled, “Sri Lanka recognizes value of Chinese Friendship in Post-election Era,” also warned the suspension would jeopardize Sri Lanka's development prospects and relationship with China. An editorial (<http://www.sundaytimes.lk/150329/news/china-shows-it-certainly-knows-what-is-good-for-sri-lanka-142207.html>) from a widely read Sri Lankan newspaper responded with the acerbic headline, “China shows it certainly knows what is good for Sri Lanka.”

Though only one instance of China's insensitivity to local political dynamics, the episode epitomizes China's misplaced confidence in its strategic foothold in Sri Lanka. Because China tethered itself to the former Rajapaksa government in Sri Lanka, it did not fully appreciate the emergent . Dismissing the critiques as political grandstanding of a small opposition, they were unprepared for the rhetorical and substantive shift in Sri Lanka's foreign policy.

During the Rajapaksa government, a number of international observers argued Sri Lanka was steadily tilting towards China as one node along its “string of pearls” or “Maritime Silk Road.” This emerging strategic relationship was allegedly motivated by China's steadfastness during Sri Lanka's civil war, a desire to offset Indian regional hegemony, and an opportunity for massive development assistance and investment. In Fall 2014, port calls by Chinese submarines into Colombo harbor seemed to confirm this assessment.

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Many analysts had overestimated Sri Lanka's tilt towards China, however, and failed to recognize how shallow and tenuous some of Beijing and Colombo's links really were. They also failed to appreciate Sri Lanka's deep and longstanding economic, military, and social links to India. While the Sirisena government framed its recent maneuvers as a correction back towards India and the West and not an abandonment of China, in zero-sum terms this certainly appears like a win for China's rivals. Today, a more agile and diversified Sri Lankan foreign policy seeks to cultivate multiple great power patrons and extract as many developmental and strategic benefits as possible while retaining Colombo's freedom of action.

The Limits of Chinese Influence

Despite the hyperbole surrounding Chinese investment leverage, Sri Lanka's course correction from its "disproportionate (http://www.sundayobserver.lk/2015/03/01/main_Editorial.asp)" foreign policy should be no surprise. Chinese influence over Sri Lanka was vastly overstated (<http://www.scmp.com/business/china-business/article/1750377/passive-investor-partner-crime-how-china-lost-plot-sri-lanka>) as its "investments" were actually far less meaningful than perceived. Chinese economic assistance to Sri Lanka often came as soft loans financing white elephant projects—such as Hambantota's new and woefully underutilized (<http://www.ft.lk/article/391662/Sri-Lanka-mulls-future-of-Rajapaksa%E2%80%99s-white-elephants--Hambantota-airport--seaport>) airport and seaport—with higher than normal development lending rates and tethered to secret conditions. These infrastructure projects were often unproductive, poorly constructed, inflated in cost due to corruption, and

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generated few downstream economic benefits. Meanwhile China remained far less consequential in other important domains of Sri Lankan development such as foreign direct investment (FDI), technology transfers, imports, direct aid, remittances, and tourism.

Longstanding and growing Indian influence, even during the Rajapaksa years, also subtly counterbalanced (<https://www.foreignaffairs.com/articles/china/2015-04-08/chinas-port-nowhere>) China. India was and is still one of the largest sources of direct aid, trade, remittances, and FDI. Furthermore, its military cooperation has expanded since the end of the civil war in 2009, particularly with the Sri Lanka navy. Politically, India has not only wielded influence over social groups in the Tamil North, but also political parties in Colombo. (As an aside, a number of well-informed analysts . Finally India's steady exchange of tourist, business, and student travel generates substantial people-to-people contacts. India's leverage and vocal concerns over Chinese overreach in its backyard made Sri Lankan foreign policy recalibration somewhat inevitable.

A Rebalanced Strategy

The string of high profile meetings and agreements in recent months suggest Sri Lanka seeks to navigate multiple major power relationships—including with China, India, and the United States—to reap unique benefits from each without foreclosing on any opportunities.

Sirisena's first foreign trip of his Presidency to New Delhi acknowledged that India would remain the first among equals in major power relations. India has the potential to boost Sri Lanka's economic development with private FDI resulting in technology transfers, expanded export capacity, and an improved knowledge economy. Sri Lanka also hopes for assistance with its banking, energy, and maritime sectors. To that end, recent visits by Sirisena to Delhi

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and Indian Prime Minister Modi to Colombo reaffirmed this “special relationship” with agreements over new economic assistance, expanded free trade to include trade in investment and services, a regional petroleum hub, and a civil nuclear deal.

Sri Lanka has sought to revitalize relations with the Western developed countries and institutions, which had deteriorated during the Rajapaksa government. The United States and the West could prove to be even more attractive economic partners as importers of Sri Lankan goods, suppliers of tourists, private investors, and government-to-government lenders (<http://nation.lk/online/2015/06/13/htota-hub-under-review/>). These governments also wield the capacity to reduce the fiscal and political costs of post-conflict reconciliation (<http://www.sundaytimes.lk/150614/columns/gridlock-in-govt-is-lanka-being-micro-managed-from-afar-153192.html>), and finance development initiatives. Both sides have made good faith efforts to repair relations. These include the deferral of UN human rights judgments and the initiation of democratic reforms, which U.S. Secretary of State Kerry praised during his visit to Sri Lanka in May—the highest diplomatic visit by a U.S. official in ten years. Sri Lanka has even positioned itself within Washington's Indo-Pacific maritime security regime, committing to protecting the sea lanes and dispatching senior naval officers to visit the USS *Carl Vinson* (CVN 70).

Despite this rebalancing, Sri Lanka does not intend to alienate China. Sirisena's March meeting with Xi Jinping in Beijing made clear that Colombo values (<http://www.bloomberg.com/news/articles/2015-03-26/xi-moves-to-boost-china-sway-in-sri-lanka-to-counter-india-shift>) a renewed economic relationship. Sri Lanka still needs capital (<http://www.bloomberg.com/news/articles/2015-03-26/xi-moves-to-boost-china-sway-in-sri-lanka-to-counter-india-shift>), but for more productive infrastructure than past projects, and China offers this with the Asian Infrastructure Investment Bank (<http://www.thehindu.com/news/international/south-asia/sri-lanka-likely-to-have-access-to-asian-infrastructure-bank/article7036611.ece>). With China, Sri Lanka is also hoping to

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renegotiate the terms of its previous loans, sign a new free trade agreement, and cultivate tourism growth. If the Sri Lankan government does eventually approve the Port City under revised terms, this could prove a highly productive asset, while signaling that it offers a welcoming but rules-based investment climate. Sri Lanka's defense relationship with China is also poised to expand beyond arms sales to more robust naval cooperation and potential observer status in the Shanghai Cooperation Organization.

Sri Lanka still views Beijing as a critical partner, but hopes to prevent China from crowding out equally important strategic relationships with India, the U.S., Japan, and key international institutions. This likely rules out submarine port calls, as Sri Lanka's foreign minister has made clear, or using Sri Lanka's maritime infrastructure to project military power regardless of who leads the government. China may have learned similar lessons and begun making adjustments in its development partnership model. China has recently proposed a trilateral dialogue (http://articles.economictimes.indiatimes.com/2015-04-01/news/60720105_1_trilateral-cooperation-indian-ocean-chinese-president-xi-jinping) to allay Indian concerns over its presence in Sri Lanka, for example.

Chinese missteps have unwittingly provided opportunities for others. The United States, Japan, and Western-backed international financial institutions are revitalizing diplomatic and economic relationships, while India is beginning to reassert latent influence it always possessed and expand it with new strategic engagements. For its part, Sri Lanka has welcomed and cultivated renewed attention from great and emerging powers, but for the foreseeable future, it will actively balance these relationships to serve its broader interests.



About Sameer Lalwani

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