



## CHINA CROWDING INDIAN INFLUENCE OUT OF SRI LANKA

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Traditionally close Indo-Sri Lankan ties forged by shared culture and ethnicity and reinforced by history and legend, are showing signs of coming under strain. Partially caused by New Delhi's failure to provide more forthcoming policy responses to Colombo's requests, India's diplomatic influence is now getting eroded. China stepped in to occupy the space and has, of late, begun expanding its presence in Sri Lanka. It is acquiring a meaningful presence in the political, commercial and cultural sectors. It is already influential in Sri Lanka's defence establishment.

The development assumes significance in the backdrop of China's uncompromising efforts to secure global acceptance of its pre-eminence in the region, which coincides with India's shrinking influence in its immediate neighbourhood. The latter could get accentuated following establishment of full diplomatic relations between China and Bhutan and imminent resolution of their boundary issue.

In keeping with the practice followed by it in many countries, Beijing sought to first exploit the economic and trade route. China's investments in Sri Lanka till 2004, were estimated at under US\$ 250 million. China's financial involvement increased when it extended assistance valued at around US\$ 300 million in the immediate aftermath of the tsunami in 2004. By 2006, China had followed through with an additional US\$ 300 million in loans and aid. There has been a noticeable spurt in Chinese lending after the defeat of the LTTE in 2009, with almost US\$ 6.5 billion being invested primarily in infrastructural projects. China provided almost 50 per cent of all foreign loans and credits received by Sri Lanka in 2009 and 40 per cent of all such assistance in 2010. Bilateral trade similarly registered an

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increase and in the first six months of 2011, totalled US\$ 1.28 billion, or an increase of nearly 40 per cent over the previous year. The enhancement of investments in Sri Lanka has coincided with increased Chinese economic and political activity in other countries neighbouring India, like Nepal.

Already burdened by domestic and external debt in excess of SL Rupees 5.5 trillion, Sri Lanka is eager for loans for its projects. China's loans to Sri Lanka, though, are neither at preferential rates and nor as grants-in-aid, but they do offer a grace period of 4-5 years for repayment. China is learnt to have been pressurizing Sri Lankan President Rajapakse to increase government spending on infra-structure to at least 6.3 per cent of the GDP to enable Sri Lanka to move from a low income country to a middle income nation. Sri Lanka recently announced that it would spend US\$ 21 billion in the period 2012-2015, or 6.5 per cent of the GDP each year. China is expected to contribute more than half this amount.

Additionally, in 2011, the China Development Bank Corporation agreed to provide US\$ 1.5 billion over a three year period for roads, power plants and irrigation schemes.

Chinese companies have secured a number of infra-structure contracts. It is noticed, however, that they often by-pass the tender process emerging suddenly as single

bidders. Cost over-runs of projects is also high. An instance is the project for construction of a 350-meter high transmission and communications tower on seven and a half acres of prime property along the picturesque Beira waterfront in central Colombo. Construction of the tower, which is estimated to cost US\$ 108 million, is being funded by China's Exim Bank. There is speculation that the Chinese telecommunications company

ZTE is involved. To ensure occupancy of the tower and revenues for its owners, the Sri Lankan government has already asked the three main telecommunications service providers namely, Airtel, Etilsat and Dialog, to move into the tower once it is completed. This will additionally facilitate security monitoring of all communications, including by the Chinese company. Interesting, albeit unrelated, is the scandal brewing in Pakistan of a Chinese telecommunications company also emerging suddenly as the sole candidate for supply of a telecommunications trunk system with integrated security-related software.

China has at least fourteen major infra-structure projects in hand in Sri Lanka. These include the Hambantota Port Development, Colombo Port Expansion Project, Norochchloi Coal Power Project, irrigation projects valued at over US\$ 700 million, and the Sapugaskanda Refinery Expansion and Modernisation project. Chinese companies are additionally involved in the development of schools.

The Hambantota Port Development project which, according to reliable inputs was awarded to China while India was still in talks with Sri Lanka, is a prime example including of cost over-runs in projects. China lent US\$ 400 million for the first phase of the new port in Hambantota and China's Exim bank lent US\$ 77 million for an oil bunkering facility. The cost of the first phase, originally estimated at US\$ 360 million, escalated by US\$ 40 million. The cause was pinpointed as the large rock slabs blocking the harbour's entrance and limiting access to ships with a draft of only 8 meters as against the planned access for ships of draft of 17 meters. The cost of phases two and three of the port's development, including the oil bunkering facility, is estimated at US\$ 600-750 million. Analysts assess, however, that the final cost would exceed US\$ 2 billion and there is suspicion that the Chinese deliberately concealed the initial cost estimates. The final expenditure makes Hambantota port commercially unviable and few ships call there. In order to salvage the situation the Sri Lankan authorities have directed that all automobiles will be imported only through Hambantota port, resulting in the addition of SL Rupees 40,000 in the cost price of each vehicle.

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linking Omanthai in the north to Trincomalee and further south to Batticaloa. The estimated cost of the project, if it materialises, is US \$ 1 billion. China's Exim Bank has separately committed US\$ 102.5 million for the purchase of 13 new diesel engines by Sri Lanka from China. China has also supplied 15 power sets at a cost of US\$ 2.46 million each.

The Norochchloi Coal Power Project is an instance of where labour imported from China is used. Phase One of the three phase, 900 MW Coal Power project is already on stream. The project costs over US\$ 1.5 billion.

Of special note is the Sapugaskanda Refinery Expansion and Modernisation (SOREM) project in which China has strongly indicated a willingness to invest US\$ 2 billion to upgrade the existing capacity of 50,000 barrels per day to 100,000 barrels per day. The estimated cost of the SOREM project when Sri Lanka was participating with Iran was US\$ 1.49 billion. China has additionally sought numerous concessions like duty-free import of machinery, tax-free income for the 2500 workers proposed to be employed and who will be brought from China, allocation of land free of cost, and preferential terms for distributing refined products in the domestic and export markets. In case the project is awarded to China, then Lanka IOC's market share will be adversely affected.

Sri Lanka is keen to exploit its wind power generation potential estimated at approximately 1,643MW and plans to commence generation of 643 MW within the next ten years. The big Chinese wind generation companies like Goldwind, Dongfang Electric and Sinovel, in their search for new markets are working aggressively to secure these

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contracts. Mannar, Jaffna and Puttalam, all incidentally close to the Indian coast, have been identified as areas with 85 per cent wind generation potential. If the Chinese companies get the contract for the project, then Chinese technicians will be conducting extensive feasibility studies in these areas and later working there for at least ten years to complete the projects.

China has shown interest in the development of off-shore oil and natural gas exploration in the Mannar Basin. They are unhappy with the block in the Mannar Basin awarded to them and are keen to get a block in the Cauvery Basin. Allocation of a block in the Cauvery Basin, which has a depth of 100 metres, will make exploration cheaper. The prospects of a find in this area are also better.

China has exhibited interest in a number of other projects. It has agreed to extend US\$ 760 million for construction of roads across the country. China's Exim Bank has granted a loan of US\$ 310 million for construction of the Colombo-Katunayaka Expressway, which will connect Sri Lanka's capital with the international airport and work is well underway. China is also involved in the education sector. The Chinese company CATIC, which is primarily in the aviation sector, recently received Sri Lankan cabinet approval awarding it a contract worth US\$ 89.55 million to relocate and develop the Institute of Technology presently situated within the Moratuwa University campus. Talks are underway for additional Chinese involvement in other secondary school development projects.

More insidious are the inroads being made by China's 'soft power' in Sri Lanka. As a first step, China Radio International recently obtained a licence to operate a 24-hour FM Radio channel in Sri Lanka. It currently has an hour-long programme in Sinhala which is directly broadcast daily from China. This service is channeled through Sri Lanka's 'Youth FM'. China's CCTV has also decided to telecast Chinese soaps and programmes with sub-titles in Sinhala. Sri Lanka's state-owned ITN started telecasting popular Chinese programmes three months ago. At the same time an unbearably high rate of tax was imposed on Sirisa TV, which used to show popular Indian TV serials. 'Xinhua', which as China's official news agency is known to combine espionage functions, is learnt to be contemplating expanding its operations in the island with the active support of the Chinese Embassy in Colombo which has 27 diplomats. Efforts are in hand to bring more Chinese journalists to Colombo. Beijing has taken active steps to promote people-to-people understanding. In addition to increasing the number of scholarships for Sri Lankan students to study in China, an agreement was signed in October 2011, to establish Confucius Centres at various

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locations in Sri Lanka. At the level of opinion-moulders, the China Institute for Contemporary International Relations, affiliated with China's intelligence establishment and specifically the

Ministry of State Security, has proposed a long-term partnership with the Bandaranayake Centre of International Studies.

China used the opportunity offered by Sri Lanka's war with the LTTE to develop close military ties with Sri Lanka's armed forces. A number of Sri Lankan armed forces officers have been going to China for training in Chinese military institutions for the past many years. China has supplied and maintained aircraft, tanks, artillery guns and radars. Later, in 2009, an agreement was signed between the Government of Sri Lanka and two Chinese defence entities namely, Polytechnologies Inc and NORINCO for the supply of arms and ammunition valued at S\$ 410 million. More recently the Sri Lankan government earmarked US\$ 6.01 million for supplies for the armed forces for a year and entered into an agreement with CATIC of China for the purchase of six MA-60 aircraft at a cost of US\$ 105.4 million for use by the Sri Lankan Air Force for VIP duties. Reports suggest that China has offered to assist build off-shore patrol craft for Sri Lanka's Navy. China has also indicated interest in a US\$ 100 million project for construction of family accommodation for Sri Lanka's military personnel in the North and Wanni and East. It separately announced a grant of US\$ 1.5 million for modernization of the Defence Services College in Colombo and offered assistance for modernization of other training establishments including in Diyatalawa.

There is a similarity in the way Chinese companies operate in Africa and Sri Lanka. In both cases the process by which projects are awarded to Chinese companies is often opaque with the procedure of tenders being by-passed and Chinese companies suddenly emerging as single bidders. In the case of many of the projects there are cost over-runs, which while ultimately adding to Colombo's financial burden seem to be overlooked by the authorities. Procedural opacity allows for high cost over-runs which, in turn, leaves the companies with readily available surplus cash funds. Chinese companies also try and channelise business through well connected individuals. For example, 'Youth FM', which is owned by MP and President Rajapakse's son, Namal, is used by China Radio International

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to beam its hour-long radio broadcasts to Sri Lanka directly from Beijing. There are also reports of Chinese investment in Carlton TV, owned by Yoshita, a Navy officer and another son of the Sri Lankan President. Chinese companies also import Chinese labour for some projects, especially when these are located in rural areas where they are unlikely to attract adverse attention.

India needs to evolve steps to ensure that its influence in the region does not shrink and its foreign policy objectives

and national aspirations are not compromised. Incidents like the harassment of Indian fishermen should be effectively discouraged as they undermine domestic and international perception of India's ability to safeguard its interests. India must, among other measures, capitalize on its inherent advantages and increase its lead as the largest source of tourism, direct foreign investment and export market for Sri Lanka.



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