

# CHINA'S ENGAGEMENT WITH COLOMBO: STRATEGIC IMPLICATIONS FOR NEW DELHI

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There is no doubt that China's forays into the strategically located Sri Lanka have increased over the past decade across the political, economic, and defence realms. This, in turn, has led to unease in India, and New Delhi also increasing its engagement with Colombo.

In his swearing-in speech in November 2019, President Gotabaya Rajapaksa, referring to his country stated, "we want to remain neutral in our foreign relations and stay out of any conflicts among the world powers."<sup>1</sup> Subsequently, in August 2020, Sri Lankan Foreign Secretary and former chief of the Sri Lankan Navy, Admiral Jayanath Colombage, stated his country would adopt an "India first approach as its new foreign policy plank", and "will not do anything harmful to India's strategic security interests."<sup>2</sup> Despite this, and

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1. Marwaan Macan-Markar, "India seeks to contain China presence in new Sri Lanka government", *Nikkei Asia*, November 22, 2019, at <https://asia.nikkei.com/Politics/International-relations/India-seeks-to-contain-China-presence-in-new-Sri-Lanka-government>. Accessed on November 18, 2020.
2. PTL, "Sri Lanka will adopt 'India-first approach': Foreign Secretary Jayanath Colombage", *The Hindu*, August 26, 2020, at <https://www.thehindu.com/news/international/sri-lanka-will-adopt-india-first-approach-foreign-secretary-jayanath-colombage/article32447711.ece>. Accessed on November 16, 2020.

other reassurances from Sri Lanka to assuage New Delhi's concerns about a growing Chinese footprint, there remain potential avenues of concern. Especially since, "despite Sri Lankan statements that China will not be allowed to use Hambantota for military purposes, China's access to intimate knowledge of the harbour at least optically provides Beijing with a key military staging area in the event of conflict."<sup>3</sup> Thus, what may seem like benign actions could have future strategic consequences that are detrimental to New Delhi's interests. These concerns not only have implications for India's national security, but also create a wedge between New Delhi and Colombo, and add to instability in the region, which this paper aims to highlight.

With an increasing Chinese engagement, "a target state's [Sri Lanka] security and foreign policy choices that accommodate the sender's [China] interests will, in many cases, be at the expense of the third party's [India] interests and potentially undermine the security relationship."<sup>4</sup> Using this analogy, with India and China being strategic rivals, the overall Chinese presence in Sri Lanka will undermine New Delhi's position in the region and be at India's expense, regardless of the size of concessions from Colombo's end.

### CANCELLATION OF PROJECTS

In July 2020, Sri Lankan Prime Minister, Mahinda Rajapaksa stated that Sri Lanka had decided against a joint venture with India to run the empty Hambantota Airport.<sup>5</sup> There is speculation that this decision came at the behest of China due to its proximity to the Hambantota Port, and Beijing's preference for not having an Indian presence nearby.

Similarly, a Chinese hand through its intelligence agencies is suspected in the threats by Sri Lankan workers to protest and go

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3. Kadira Pethiyagoda, "Navigating Relations with China and India", Lakshman Kadirgamar Institute of International Relations and Strategic Studies, June 7, 2018, at <https://lki.lk/publication/navigating-relations-with-china-and-india/>. Accessed on November 16, 2020.

4. Darren J. Lim and Rohan Mukherjee, "What Money Can't Buy: The Security Externalities of Chinese Economic Statecraft in Post-War Sri Lanka", *Asian Security* 15, no. 2 (2019): 73-92, p. 77.

5. PTI, "Sri Lanka PM Rajapaksa Says India Heeded His Request Not to Seek Joint Venture to Run Mattala Airport", *News 18*, July 10, 2020, at <https://www.news18.com/amp/news/india/sri-lanka-pm-rajapaksa-says-india-heeded-his-request-not-to-seek-joint-venture-to-run-mattala-airport-2710543.html>. Accessed on November 17, 2020.

on an indefinite strike if foreign involvement in the development of Colombo's East Container Terminal (ECT) is allowed by the Sri Lankan government.<sup>6</sup> The previous government under President Sirisena had signed a Memorandum of Cooperation (MOC) with India and Japan to develop the terminal in May 2019, which until February 2021 was under review by the Gotabaya Rajapaksa government. The ECT is important for India as a majority of the traffic at the terminal is for the transshipment of Indian goods, and the joint venture with Japan was "expected to showcase how the two Indo-Pacific partners ... could provide South Asia with viable, transparent and sustainable alternatives for financing and developing."<sup>7</sup> In January 2021, President Gotabaya Rajapaksa assured trade unions that the ECT would not be sold or leased, and it would be possible to reach an agreement where 51 per cent of ownership and control would be under the Sri Lanka Ports Authority (SLPA).<sup>8</sup> A day later he announced the revival of the ECT investment project through the tripartite deal with India and Japan after reviewing "regional geopolitical concerns".<sup>9</sup> However, in February 2021, the Sri Lankan Cabinet reneged on the 2019 tripartite agreement amidst pressure from the worker unions and decided to operate the ECT as a wholly-owned container terminal of the SLPA.<sup>10</sup>

Coming as a surprise to both India and Japan, the two countries only learnt about the decision after the Cabinet decisions were

6. Anirban Bhaumik, "China's role suspected, as Sri Lanka reviews role of India, Japan in Colombo Port project", *Deccan Herald*, July 4, 2020, at <https://www.deccanherald.com/international/world-news-politics/china-s-role-suspected-as-sri-lanka-reviews-role-of-india-japan-in-colombo-port-project-857102.html>. Accessed on November 17, 2020.
7. "Terminal declined: On Sri Lanka reneging on Colombo East Container Terminal", *The Hindu*, February 6, 2021, at <https://www.thehindu.com/opinion/editorial/terminal-declined-the-hindu-editorial-on-sri-lanka-reneging-on-colombo-east-container-terminal/article33762935.ece>. Accessed on February 8, 2021.
8. "East Container Terminal will not be sold or leased, President assures trade unions", *Colombo Page*, January 13, 2021, at [http://www.colombopage.com/archive\\_21A/Jan13\\_1610552463CH.php](http://www.colombopage.com/archive_21A/Jan13_1610552463CH.php). Accessed on January 14, 2021.
9. AFP, "Sri Lanka revives Colombo port deal with Japan, India over 'geopolitical concerns'", *South China Morning Post*, January 14, 2021, at <https://www.scmp.com/news/asia/south-asia/article/3117659/sri-lanka-revives-colombo-port-deal-japan-india-over>. Accessed on January 15, 2021.
10. Meera Srinivasan, "No Indian role in developing ECT in Colombo, Sri Lanka decides", *The Hindu*, February 1, 2021, at <https://www.thehindu.com/news/international/sri-lankan-government-succumbs-to-pressure-from-trade-unions-says-ect-to-be-operated-100-by-slua/article33717109.ece>. Accessed on February 2, 2021.

released. The Cabinet decision also included a provision to offer the West Container Terminal (WCT), which is still only a proposal on paper and would require considerably more investments and time to become a profitable venture, to India and Japan for possible investments. This was offered to the two countries in March 2021 on a Build, Operate and Transfer basis for 35 years as a public-private partnership with the SLPA and companies selected by India and Japan.<sup>11</sup> This seems like a counter-intuitive step if the aim is to keep national assets in Sri Lankan hands. Apart from the Sri Lankan side assuring further trouble would not occur on the WCT, an SLPA official has also stated that there has been a promise of the private stake in the WCT being 85 per cent compared to the 49 per cent in the ECT which would mean the Indian and Japanese consortium would be able to run the terminal with full autonomy.<sup>12</sup> Confirming this, Sri Lanka's Foreign Secretary has stated the WCT is being given on similar terms as the CICT was given to China—to compensate for the ECT decision—which ultimately results in a better bargain for both India and Japan.<sup>13</sup> Nevertheless, these statements further complicate the reasons given for renegeing on the 2019 MOC.

An important aspect to be highlighted in the case of the ECT is the geopolitical narrative and increasing politicisation of the terminal that has been disseminated by the trade union leaders for the first time in their resistance. An Indian official overseeing the project has stated that the “unprecedented resistance to India's investment in Colombo raises concerns on whose behest all this is being triggered”, and added that the “fully orchestrated and coordinated campaign against Indian involvement in [the] Colombo terminal has to be

11. Bharatha Mallawarachi, “Sri Lanka Approves New Port Development with India and Japan”, *The Diplomat*, March 2, 2021, at <https://thediplomat.com/2021/03/sri-lanka-approves-new-port-development-with-india-and-japan/?fbclid=IwAR02E5DW6LeOI880kWpnLYyVk00zICzspVz6m2IyD6cJHx4j6px9XSUpPag>. Accessed on March 5, 2021.

12. Arun Janardhanan, “Explained: Why Sri Lanka pushed India out of Colombo terminal, what's being offered as compensation”, *The Indian Express*, February 3, 2021, at <https://indianexpress.com/article/explained/explained-why-sri-lanka-has-pushed-india-out-of-colombo-terminal-project-and-whats-being-offered-as-compensation-7171502/>. Accessed on February 3, 2021.

13. StratNewsGlobal, “West Container Terminal Better Deal for India: Sri Lankan Foreign Secy”, YouTube, March 5, 2021, at <https://www.youtube.com/watch?v=4jzZd9LN23c>. Accessed on March 5, 2021.

funded by somebody, it cannot be homegrown.”<sup>14</sup> Equally important is the analysis of the government’s reaction when compared to the leasing of the Hambantota port. On the ECT, the government succumbed to the opposition and protests from the trade unions over the tripartite MOC that would still ensure overall Sri Lankan control through the SLPA. For the 99-year Hambantota deal, however, although there were protests, the government pushed through and signed the agreement. This agreement, much more compromising to the country’s sovereignty with greater geopolitical implications, included 70 per cent of the port’s stake being leased to the China Merchants Port Holdings Company, which would also operate a significant portion of the port and keep the profits.<sup>15</sup> The China factor, therefore, cannot be discounted, and the ECT is a clear example where India-Sri Lanka ties have been directly impacted as a result.

In September 2020, the Sri Lankan Government also abruptly suspended a Japanese funded \$1.5 billion light rail project in Colombo supported through a loan from the Japan International Cooperation Agency (JICA).<sup>16</sup> Citing foreign exchange difficulties and high costs, along with huge environmental damages, the project was terminated by President Gotabaya Rajapaksa’s cabinet. This was despite the Extended Cost-Benefit Analysis stating the project was economically viable and suitable for implementation. Additionally, an approved Environment Impact Assessment study conducted by both a Sri Lankan and Japanese company disproved the environmental impacts stated by the cabinet.<sup>17</sup> This decision comes not only as a blow to solving Colombo’s traffic congestion, but would also have assured

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14. P. Manoj, “Chinese hand seen behind blocking India’s bid to develop ECT at Colombo port”, *The Hindu Business Line*, February 5, 2021, at <https://www.thehindubusinessline.com/economy/logistics/chinese-hand-seen-behind-blocking-indias-bid-to-develop-ect-in-colombo-port/article33760430.ece>. Accessed on February 8, 2021.

15. Umesh Moramudali, “The Hambantota Port Deal: Myths and Realities”, *The Diplomat*, January 1, 2020, at <https://thediplomat.com/2020/01/the-hambantota-port-deal-myths-and-realities/>. Accessed on February 3, 2021.

16. Reuters Staff, “Sri Lanka suspends Japanese-funded rail project over costs”, Reuters, September 24, 2020, at <https://in.reuters.com/article/sri-lanka-japan-railway/sri-lanka-suspends-japanese-funded-rail-project-over-costs-idINL3N2GL3CR>. Accessed on November 17, 2020.

17. Janaka Ratnasiri, “Cancellation of light rail project: Some alternatives to reduce congestion”, *The Island*, October 7, 2020, at <https://island.lk/cancellation-of-light-rail-project/>. Accessed on November 17, 2020.

an over 20 per cent return on investment.<sup>18</sup> While the cancellation of these projects comes as a surprise despite its practicality, there is the possibility of a Chinese role in the decision. In June 2020, the Urban Development Ministerial Secretary, Priyath Bandu Wickrema, had stated the project “will not be aborted under any circumstances”.<sup>19</sup> This adds to the inference of the cancellation being more a political decision under pressure rather than otherwise stated, along with the fact that the Japanese were not officially informed beforehand. If the Rajapaksa government reallocates the light rail project to a Chinese company, there is the possibility that Beijing would have successfully influenced the decision. This could result in further political and economic support to Sri Lanka from Beijing. However, this could also result in future Japanese apprehensions of investing in the country, which will also be unfavourable to Indian interests as New Delhi has cultivated ties with Tokyo to balance an increasing Chinese footprint in the region.

Chinese influence is, therefore, suspected to be playing a role in slowing down and obstructing Indian and Japanese led development initiatives in Sri Lanka.

### CHINA'S POLITICAL INFLUENCE

Beijing's political influence, when linked with economic outcomes, also results in projects or overtures by third countries either getting cancelled or being given to Chinese companies under the BRI. As mentioned above, while the Hambantota Airport joint venture with India was rejected, Colombo Port's Eastern Container Terminal 2019 MOC with India and Japan was also reneged upon, and the Japanese light rail project being abruptly cancelled, are a few examples where projects spearheaded by India and Japan have faced hurdles when projects under the BRI, despite being white elephants and not being feasible, have been given the green light.

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18. P. K. Blachandran, “Sri Lanka: Abruptly and Unilaterally Cancelled LRT Project upsets experts”, *Sri Lanka Guardian*, October 2020, at <http://www.slguardian.org/2020/10/sri-lanka-abruptly-and-unilaterally.html>. Accessed on November 17, 2020.

19. “Colombo LRT finally at China's hands?”, *Lankanewsweb*, June 25, 2020, at <https://www.lankanewsweb.net/67-general-news/64137-Colombo-LRT-finally-at-Chinas-hands>. Accessed on November 17, 2020.

Additionally, Colombo has also rejected the American Millennium Challenge Corporation's (MCC) \$480 million grant to upgrade the country's transport infrastructure and land management, stating it would negatively affect Sri Lanka's sovereignty, national security, and national objectives.<sup>20</sup> In December 2020, the US officially withdrew from the grant citing a "lack of partner country engagement".<sup>21</sup> The Sri Lankan government has also not yet taken a decision to sign the Status of Forces Agreement (SOFA) or the Acquisition and Cross Servicing Agreement (ACSA) defence pacts with the US due to fears of them infringing upon the island nation's sovereignty. Regarding the two pacts, Sri Lankan Government Media Spokesperson and State Minister of Investment Promotion, Keheliya Rambukwella, stated in February 2020 that, "If any part of this country will become [sic] under the control of a foreign power under any agreement then the government will not sign such an agreement. We believe the SOFA and ACSA include such conditions and if that's the case we will not sign those agreements."<sup>22</sup>

Preference to China and the BRI is no doubt a result of Beijing's political influence when compared to the reasons and justifications given for reviewing or rejecting non-Chinese projects and proposals. It is also believed that Colombo has been pressured by Beijing to open up the northern areas of Sri Lanka to Chinese reconstruction.<sup>23</sup> In April 2018, the China Railway Group Ltd. won a \$300 million project to build 40,000 houses in Jaffna, financed by the China Exim Bank.<sup>24</sup> This project, however, has faced setbacks with the locals wanting brick houses rather than the concrete ones proposed by the Chinese.

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20. IANS, "SL govt decides not to sign \$480mn MCC agreement", *Outlook India*, February 29, 2020, at <https://www.outlookindia.com/newscroll/sl-govt-decides-not-to-sign-480mn-mcc-agreement/1747783>. Accessed on November 17, 2020.

21. "Statement on Decision of Millennium Challenge Corporation Board", *U.S. Embassy in Sri Lanka*, December 17, 2020, at <https://lk.usembassy.gov/statement-on-decision-of-millennium-challenge-corporation-board/>. Accessed on December 18, 2020.

22. "No decision to sign SOFA, ACSA yet—government spokesman", *Colombo Page*, February 13, 2020, at [http://www.colombopage.com/archive\\_20A/Feb13\\_1581535113CH.php](http://www.colombopage.com/archive_20A/Feb13_1581535113CH.php). Accessed on February 3, 2021.

23. Sudha Ramachandran, "China Expands Its Footprint in Sri Lanka", *The Diplomat*, September 11, 2018, at <https://thediplomat.com/2018/09/china-expands-its-footprint-in-sri-lanka/>. Accessed on November 18, 2020.

24. Shihar Aneez, "China aims to build houses, roads in Sri Lanka north to extend sway", *Reuters*, August 24, 2018, at <https://in.reuters.com/article/sri-lanka-china/china-aims-to-build-houses-roads-in-sri-lanka-north-to-extend-sway-idINKCN1L90UI>. Accessed on November 18, 2020.

In February 2021, a renewable energy project was awarded by Sri Lanka to a Chinese company on three islands in the Palk Bay which are less than 50 km from Tamil Nadu and has raised concerns in New Delhi.<sup>25</sup> While the decision still has to get approval from the Sri Lankan Cabinet, the Sri Lankans are also considering a \$12 million grant from India to develop a hybrid renewable energy system on the islands.<sup>26</sup> Traditionally, India has played a major role in reconstructing and redeveloping the war-affected Tamil-dominated areas of the north, has had the greatest influence in the region, and a close connection with the population. While there is no policy on only allowing India to reconstruct the area, China's growing forays into the north could be at India's cost. Although it is unlikely this will reduce India's influence and links with the Sri Lankan Tamils, New Delhi will face increasing competition over projects due to the political bonhomie between Beijing and Colombo.<sup>27</sup> Apart from political influence resulting in economic favourability, this can also lead to India losing Sri Lankan support on issues where New Delhi and Colombo were previously politically aligned.

Under the Gotabaya Rajapaksa government, the proposed Colombo Port City Economic Commission Bill came under fire for supporting Chinese interests and virtually ceding control over the Port City. Wijeyadasa Rajapakshe, a Member of Parliament and former Justice Minister, has called the Bill disastrous, stating that it violates the Constitution and "will not help the economy of Sri Lanka. The profits in this region will flow out to China."<sup>28</sup> The MP added it would lead to the Port City becoming a Chinese

25. Meera Srinivasan, "Sri Lanka clears Chinese energy project, 50 km off Tamil Nadu", *The Hindu*, February 8, 2021, at <https://www.thehindu.com/news/international/sri-lanka-clears-chinese-energy-project-50-km-off-tamil-nadu/article33785609.ece>. Accessed on February 10, 2021.

26. Maheesha Mudugamuwa, "India proposes \$12 m grant for renewable energy projects in Jaffna peninsula islands", *The Morning*, February 14, 2021, at <http://www.themorning.lk/india-proposes-12-m-grant-for-renewable-energy-projects-in-jaffna-peninsula-islands/>. Accessed on February 15, 2021.

27. Shihar Aneez, "China aims to build houses, roads in Sri Lanka north to extend sway", *Reuters*, August 24, 2018, at <https://in.reuters.com/article/sri-lanka-china/china-aims-to-build-houses-roads-in-sri-lanka-north-to-extend-sway-idINKCN1L90UI>. Accessed on November 18, 2020.

28. Chitra Weeraratne, "Wijeyadasa says all profits from Port City will flow out to China", *The Island*, April 21, 2021, at <https://island.lk/wijeyadasa-says-all-profits-from-port-city-will-flow-out-to-china/>. Accessed on May 10, 2021.



colony, and its handing over through an Act would be more dangerous than the agreement that led to the handing over of the Hambantota Port.<sup>29</sup> Additionally, Rajapakshe stated, “The entire country should be concerned over the government move made at the behest of China,” signalling direct Chinese influence over this Bill.<sup>30</sup> Additionally, there were also protests from trade unions that stated labour rights had no protection under this new legal entity. With the government having a majority in the Parliament, it was thus likely the Bill would be passed despite the 20 petitions filed against it in the Supreme Court by opposition parties and civil society groups. Despite the Supreme Court declaring certain provisions of the Bill to be inconsistent with the Constitution, the court ruled it could go ahead with only minor tweaks required to address these issues, and rejected the petitions challenging the Bill in May 2021. After a fast-track approval, the Bill was subsequently passed by the Parliament a few days later, with the majority voting in its favour, showcasing the strength of China’s influence in dictating Colombo’s agency.

Not uncommon in BRI nations, especially those in Africa, this would establish an Overseas Economic and Commercial Cooperation Zone, which according to Lin Yifu, former Chief Economist at the World Bank, was “building a nest to accommodate the Phoenix,” which in this case would be China—without much consideration for the host country’s needs.<sup>31</sup> Furthermore, the Special Economic Zone will be administered by a Special Commission exempt from certain legal and constitutional oversight. Therefore, while Gotabaya Rajapaksa’s government has supported trade unions, reneged upon the Colombo ECT project, and rejected the American MCC grant on grounds of threatening Sri Lanka’s sovereignty, China’s political

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29. “Port city would become a Chinese colony through the Economic Commission bill”—MP Wijeyadasa Rajapakshe”, *Colombo Page*, April 15, 2021, at [http://www.colombopage.com/archive\\_21A/Apr15\\_1618509702CH.php](http://www.colombopage.com/archive_21A/Apr15_1618509702CH.php). Accessed on May 10, 2021.

30. Shamindra Ferdinando, “Wijeyadasa, under heavy flak over opposition to China project, says ready to face consequences”, *The Island*, April 19, 2021, at <https://island.lk/wijeyadasa-under-heavy-flak-over-opposition-to-china-project-says-ready-to-face-consequences/>. Accessed on May 10, 2021.

31. Thierry Pairault, “China in Africa: Phoenix Nests versus Special Economic Zones”, Occasional Paper No. 7, *CCJ*, December 2018.

influence can be given credit for Colombo's foreign policy position of bandwagoning with China.

### **COLOMBO'S POTENTIAL DEBT TRAP**

On the economic front, while a debt trap is more concerning internally to Sri Lanka than India, there are serious implications that arise from Colombo slipping into one and increasing its dependence on Beijing. Primarily, it is the fear of the debt trap resulting in more assets being transferred to Chinese control, similar to what happened to the Hambantota Port. While there are other ways to repay and lower pressure from loans, China's insistence on an equity swap signals inimical underlying intent. Incidentally, if Sri Lanka keeps borrowing from China to repay previous loans, this will just expedite the debt trap in the country. Thus, if argued that China's engagement in Sri Lanka may not be to throw the country into a debt trap, actions like these directly counter those claims.

In the long run, if similar instances persist, Beijing would successfully be able to convert debt leverage for an increased naval presence just off the Indian coast. Increasing debt to China would also create a dependence on China resulting in an increasing influence over the Sri Lankan government, which could be detrimental to New Delhi on numerous fronts.

### **DUAL-USE OF PROJECTS**

One of the most concerning aspects of the Chinese presence in Sri Lanka is the possibility of the dual-use of projects for both civilian and military applications, with one Sri Lankan foreign policy expert stating that Hambantota could turn into a Djibouti.<sup>32</sup> It was added that China would have the capacity to request this due to its vast economic footprint in the island nation.

At the forefront of this is the Hambantota Port, already controlled by a Chinese state-owned company. Subsequently, while Colombo has assured New Delhi the port will not be used in any way detrimental to India, Sri Lankan officials stated that "from the start, the intelligence and strategic possibilities of the port's location

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32. Author interview with a Sri Lankan foreign policy analyst, Colombo, August 17, 2018.

were part of the negotiations”, and that “intelligence sharing was an integral, if not public, part of the deal.”<sup>33</sup> Former Sri Lankan foreign secretary, Nihal Rodrigo, also stated that China made it clear that they expected to be informed on who was coming and stopping at the port. Furthermore, while military use of the port was ruled out in the agreement, Sri Lankan officials also stated they could be pressured to allow it due to the heavy debt still owed to China.<sup>34</sup> In June 2021, an MOU was signed announcing an energy centre in Hambantota, transforming the region into an energy hub.<sup>35</sup> Oil storage, distribution facilities and large-scale integrated refineries in the port area would be built, potentially leading to greater use by Chinese vessels if successfully implemented.

To show Sri Lanka’s overall control in Hambantota and assuage fears of it becoming a naval base for the PLAN, there were reports of the Sri Lankan Southern Naval Command moving base to Hambantota. However, as stated by a former chief of the Sri Lankan Navy, since there was no land in the area due to the 15,000 acres being given to the Chinese company along with the port, the navy would have to lease its own land back in order to reassign the entire naval command to Hambantota.<sup>36</sup>

What is reassuring for New Delhi, is the addition to the treaty signed between the Sri Lankans and the Chinese which states that visits of warships should follow the protocol of the Sri Lankan government, thereby limiting the free rein of the PLAN using the port. It is therefore clear that before China invests abroad, the strategic possibilities of its projects are accounted for and examined. In Sri Lanka, the strategic possibilities of using the Hambantota Port can only be at the expense of India and causing instability and security concerns in the Indian Ocean.

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33. Maria Abi-Habib, “How China Got Sri Lanka to Cough Up a Port”, *The New York Times*, June 25, 2018, at <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>. Accessed on November 10, 2020.

34. *Ibid.*

35. Tang Wei, “Sino-Sri Lanka enterprises work together to build Sri Lanka’s energy center”, *People’s Daily*, June 11, 2021, at [http://paper.people.com.cn/rmrb/html/2021-06/11/nw.D110000renmrb\\_20210611\\_4-17.htm](http://paper.people.com.cn/rmrb/html/2021-06/11/nw.D110000renmrb_20210611_4-17.htm). Accessed on June 14, 2021.

36. Author interview with a former chief of the Sri Lankan Navy, Colombo, August 16, 2018.

## LINKS BETWEEN CCP AND SOES

The close ties and direct links between the CCP and numerous state-owned enterprises (SOEs) operating in Sri Lanka in different capacities are also of concern to New Delhi for two main reasons. Firstly, due to these links pressures can be applied in Colombo by the numerous SOEs on the political front resulting in favourable outcomes for the Chinese government. This has been exacerbated by a new regulation in January 2020 that cements the CCP's role at the top of its SOEs and ensures they "execute the will of the party".<sup>37</sup> According to this regulation, the CCP committees have been put at the centre of power in running the SOEs and "all major business and management decisions must be discussed by the Communist Party organ before being presented to the board of directors or management for decision."<sup>38</sup> Furthermore, the chairman of the company has to be a party secretary with the general manager being a deputy party committee secretary. This desire to extend state control will subsequently lead to greater CCP involvement abroad and enhance the convergence between conducting business and attaining foreign policy objectives. This has already taken place and came to light when it was revealed by an investigation and subsequently denied by the Rajapaksa's that certain funds to support Mahinda Rajapaksa's re-election campaign in 2015 came from a Chinese SOE. Secondly, the state-owned aspect of the investing and construction companies along with their nature has also raised apprehensions due to the security and strategic implications of some of the projects.

One such alarming example is South Asia's tallest tower, the 350-metre Lotus Tower in Colombo which was unveiled in September 2019. Funded by the Chinese Exim Bank, the tower is "built with fibre optic cables and fully equipped with necessary telecommunication equipment."<sup>39</sup> The construction companies used, however, is where

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37. Orange Wang and Zhou Xin, "China cements Communist Party's role at top of its SOEs, should 'execute the will of the party'", *South China Morning Post*, January 8, 2020, at <https://www.scmp.com/economy/china-economy/article/3045053/china-cements-communist-partys-role-top-its-soes-should>. Accessed on November 25, 2020.

38. Ibid.

39. PTI, "Sri Lanka unveils South Asia's tallest tower, funded by China", *The Hindu*, September 16, 2019, at <https://www.thehindu.com/news/international/sri-lanka-unveils-south-asias-tallest-tower-funded-by-china/article29434204.ece>. Accessed on November 17, 2020.

the real concern lies. Built by the China National Electronic Import and Export Corporation (CEIEC) and the Chinese Aerospace Long-March International Trade Company (CALMIT), the two companies, apart from being closely linked to government organisations, are “involved in [the] military and quasi-military business.”<sup>40</sup> According to its website, CEIEC is “dedicated to national defense solutions and services to safeguard state sovereignty and territorial integrity”, and supplies C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance), electronic warfare, and radar solutions.<sup>41</sup> The company also provides public security and surveillance options. Therefore, CEIEC is involved in the construction and integration of defence electronic systems. Similarly, CALMIT specialises in the “export and import of defence equipment, technology, and services”.<sup>42</sup>

Thus, the nature of these companies, undoubtedly, means South Asia’s tallest tower has electronic surveillance capabilities that could be used by the PRC or PLA to monitor Indian military installations on the mainland, along with naval movement in the Indian Ocean. Strategically located with India on the one side and the vast Indian Ocean on the other, the tower has the potential to be a threat to India’s security and the wider region. Additionally, it has been argued, although there may be no visible surveillance features on the tower, Sri Lanka “does not have the technological capability to locate such hidden assets.”<sup>43</sup>

The close ties these companies have with the PRC, and the technologies they possess, suggest that they can be effectively used as an instrument of carrying out Beijing’s foreign policy ambitions and wider objectives in Sri Lanka if required. Presently, there are approximately 60 Chinese SOEs in Sri Lanka, with around 26 of them having established their South Asia headquarters in Colombo.<sup>44</sup>

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40. Bhaskar Roy, “China’s listening post in Indian Ocean”, *South Asia Analysis Group*, April 10, 2015, at <http://www.southasiaanalysis.org/node/1753>. Accessed on November 17, 2020.

41. CEIEC Website, <https://www.ceiec.com/>. Accessed on November 17, 2020.

42. Roy, n. 40.

43. *Ibid.*

44. Dushni Weerakoon and Janaka Wijayasiri, “Belt and Road Initiative, Debt and Diplomacy: Challenges and Opportunities for China-Sri Lanka Economic Relations”, Institute of Policy Studies of Sri Lanka, Occasional Paper Series No. 200, July 2019.

## DEPENDENCE ON CHINESE ARMS AND INCREASING PLA PRESENCE

On the defence front, while most of India's concerns arise out of the dual-use projects and an increasing naval presence and surveillance capabilities through them that have been elaborated upon above, there is also the potential of increasing dependence on China for supplying arms for the Sri Lankan military. Furthermore, the consequences of an increased PLAN and Chinese survey vessels presence in the waters around the island nation also has ramifications for India's national security.

From the time of the Sri Lankan civil war, China has been an important and valued arms provider to the country (Table 1). As mentioned above, the low cost of weapons and systems combined with loans to purchase equipment makes the Chinese an attractive supplier. Furthermore, China would not be hindered by international arms sanctions and embargos, as was the case during the civil war. There is, however, a concern that arises from Sri Lanka overly depending on Chinese arms that could lead to Beijing increasing in influence over Colombo that, in the long term, could be detrimental to New Delhi's interests. Especially since Sri Lanka, to some extent through these transfers, directly depends on China for its national defence.<sup>45</sup> In its most extreme form, this could take place either through restricting arms sales to Sri Lanka until other demands are met, or political concessions are given.

**Table 1: Major Chinese Armaments in the Sri Lankan Military**

Army	Air Force	Navy
<b>Armoured Vehicles</b> – Type-63, Type-85, Type-89	<b>Fighter Aircraft –</b> Chengdu F-7	<b>Frigates and Corvettes – Type-</b> 053H2G
<b>Artillery – Type-</b> 59-I, Type-66 (D-20)	<b>Trainer Aircraft</b> – Hongdu JL-8, Nanchang CJ-6, Chengdu J-7	<b>Patrol Boats –</b> Haizhui class, Shanghai II class

45. David Kinsella, "Arms Transfer Dependence and Foreign Policy Conflict", *Journal of Peace Research* 35, no. 1 (1998): 7-23.

<b>Anti-Tank/ Infrastructure</b> – HJ-8, Type-56 (D-44)	<b>Transport Aircraft</b> – Harbin Y-12, Xian MA60	<b>Amphibious Warfare Vessels</b> – Yunnan Class, Yuhai class
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Source: *IISS Military Balance*.<sup>46</sup>

An increasing PLAN presence and other Chinese survey vessels also add to New Delhi's security apprehensions. A PLAN presence close to the Indian shores in any capacity is an unfavourable situation to be in. Increasing visits to Sri Lankan ports will aid the PLAN in getting familiar with the Indian Ocean waters and allow China to better monitor Indian capabilities in the area from their vessels. This would be aided by an increase in Chinese commercial activity whereby Beijing would justify a naval presence to secure its interests and provide security. Furthermore, the deployment of survey vessels for conducting research can also be used for military purposes. As mentioned above, there is no doubt in the way the Chinese are carrying out research (not informing Sri Lanka of deployments, conducting research far from the shore, and not sharing data with the Sri Lankans as per the agreement), there is more to these deployments than just finding Admiral Zheng He's wreckage. For any navy, the underwater is a vast region that is unknown but crucial for submarine operations. Submarines choose to deploy depending on numerous factors including the sound velocity and hydrological profile of the water that is made up of the water temperature, pressure, and salinity. Based on these technicalities, deployments could result in varying levels of detection, and thus are carefully chosen before submarine operations. According to a former Indian naval officer, this is where the research vessels come in to try and establish better underwater domain awareness which is critical for the future of naval warfare.<sup>47</sup> By mapping the ocean through these vessels, the PLAN would be able to better strategise and execute operations. Although the PLAN submarines have already visited Sri Lanka and are often part of China's anti-piracy efforts in the Indian Ocean (an unconvincing

46. The International Institute for Strategic Studies, "Sri Lanka", *The Military Balance 2021* (London: Routledge, 2021), p. 299.

47. Author interview with a former Indian naval officer, New Delhi, June 3, 2021.

and weak argument in itself), a clearer picture of the waters would always be beneficial. The presence of research vessels, therefore, could also indicate where the PLAN might operate in the future. The officer added that these vessels are also euphemisms for spy ships that would be able to monitor the Indian Navy, collect signals intelligence, and disrupt GPS systems and operations if required.

As discussed, China's engagement in Colombo has resulted in numerous strategic implications for New Delhi in various forms that span Indian projects getting cancelled, Beijing's growing political presence in Colombo, the deteriorating economic situation combined with Chinese loans, the dual use of Chinese projects, the link between the CCP and its SOEs, and finally the inevitable increasing PLA presence in the region. Although an analyses of New Delhi's engagement with Colombo and India's options going forward are not in the scope of this paper, it is important to note that while the above implications might present a suboptimal outlook for India's influence in the region, that is not the case. India remains an important partner for Sri Lanka and its interests are not easily written off. A recent example of this has been Sri Lanka's "Integrated Country Strategy" released by the Sri Lankan High Commission in New Delhi which outlines a plan for the next two years to deepen ties with India across the trade, military, connectivity, and cultural aspects of the bilateral relations.<sup>48</sup> Ultimately, since it is unlikely Beijing's outreach and presence in the island nation will subside, India needs to formulate innovative and comprehensive policies that ensure New Delhi's interests are accounted for and not undermined, especially with an overall growing Chinese presence in India's neighbourhood.

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48. Huma Siddiqui, "Sri Lanka plans to deepen ties with India; to focus on military and trade", *Financial Express*, August 12, 2021, at <https://www.financialexpress.com/defence/sri-lanka-brings-out-a-document-on-ties-with-india-focus-on-military-and-trade/2309568/>. Accessed on August 13, 2021.