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DISCUSSION PAPER

Long Lost Lanka: Reorienting India-Sri Lanka Relations Amidst Chinese Expansionism

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TABLE OF CONTENTS

1. CONTEXT	03
2. INDO-SRI LANKA RELATIONS: A ROUGH RIDE	05
3. THE DRAGON ENTERS: THE CHINESE AND SRI LANKAN FRIENDSHIP	07
4. INDIA'S POLICY PRIORITIES	09
5. BIBLIOGRAPHY	11

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IOR (Indian Ocean Region) is the hub of international trade in the 21st century, especially in energy trade. Two-thirds of the world's oil and almost half of the world's coal passes through the IOR (Murlidharan 2018).

CONTEXT

India's location at the crossroads of the Atlantic waters and the Indo-Pacific has historically provided it with a geographical advantage in maritime trade. Such a strategic position enabled India to create a stable zone of influence in the northern Indian Ocean Region [IOR]. IOR is the hub of international trade in the 21st century, especially in energy trade. Two-thirds of the world's oil and almost half of the world's coal passes through the IOR (Murlidharan 2018). As of 2018, 90% of India's foreign trade by volume, i.e. the size of international transactions of goods in terms of monetary value, is transported via ocean waters. In addition, India undertakes various economic activities within its Exclusive Economic Zone [EEZ], including offshore petroleum extraction that satisfies 20% of the country's petroleum needs (ibid).

Despite India's strategic geographical advantage, China's emergence as a major player has become a cause for concern in the IOR. The concerns surround Chinese expansionism in trade, foreign policy, and maritime security, which manifest most prominently in the form of its Wolf Warrior Diplomacy¹ and the Belt and Road Initiative [BRI]². This network of the BRI, coupled with the robust diplomatic approach of the Chinese administration, has facilitated the stationing of Chinese naval forces and commercial facilities to encircle India in a 'string of pearls'³. While India has upgraded its capacity to counter Chinese aggression on land, the maritime threats push Indian security strategy into unknown waters.

Within this developing context, Sri Lanka is a key player. The island nation lies on an important Sea Lines of Communication⁴ [SLOC] stretching from the Strait of Malacca to the Strait of Hormuz and Bab al-Mandab. Thus, Sri Lanka exists close to a constant flux of economic activity. The island nation is also in close proximity to India's EEZ, which employs nearly 15 million people directly or indirectly in fishing activities, including deployment of around 2.5 lakh vessels of various kinds (Murlidharan 2018). This area, however, is also a site of piracy by offshoots of the Liberation Tigers of Tamil Eelam [LTTE] (Abeyagoonasekera 2020), a Tamil insurgent group demanding a separate territory for Sri Lankan Tamils.

Additionally, since Sri Lanka lies at the juncture of the Arabian Sea and the Bay of Bengal, it is close to the zone meant for switching of Indian Naval fleets, i.e., changing the position or formation of warships. The Indian Ocean is a site of critical naval exercises that India undertakes along with fellow Quad members — the USA, Japan, and Australia — and other countries like the UK, France, Russia, and Singapore. The Sri Lankan and the Indian navies have also continued conducting Bilateral Maritime Exercises since 2005. Thus far, the Indian Navy's military vessels in the Indian Ocean have been crucial in keeping Chinese commercial and naval facilities in check.

¹ Wolf Warrior Diplomacy is a new approach undertaken under President Xi Jinping. It is known for its assertive, proactive, and confrontational nature which is non-compliant with any criticism of the Chinese government (Zhu 2020).

² Chinese BRI, an infrastructural project, is a network of roadways and ports to improve connectivity among countries and ease the flow of trade. The BRI is also referred to as the "new silk road" with a two-pronged overland and maritime plan.

³ String of Pearls is a network of Chinese military and commercial facilities. China develops said facilities in countries situated in and around the Indian Ocean, forming a string of 'pearls' around India that is of great national security concern. The commercial shipping facility at the port of Hambantota in Sri Lanka and the deep-water port in Gwadar, Pakistan are examples.

⁴ Sea Lines of Communication [SLOCs] are maritime routes between ports that facilitate trade, navigation, and naval activities.

Figure 1: Economic corridors within the Chinese Belt and Road Initiative



Source: Geopolitical Intelligence Service (2018)

Thus, Sri Lanka is a significant investment destination for India from an economic and regional security perspective. Further, cultural and religious affinity also puts Sri Lanka closer to India than other nations in the neighbourhood. With increasing Chinese presence in the region, a mutually beneficial evolution of India-Sri Lanka relations is crucial for India to maintain the balance of power in the IOR region.

This piece discusses the evolution of the Indo-Sri Lanka relationship, how the island nation can be prudent in countering Chinese threats, and how India can improve said relations by widening the doors of diplomacy beyond conventional government-to-government interaction.

INDO-SRI LANKA RELATIONS: A ROUGH RIDE

The relationship between India and Sri Lanka is centuries old, with the two countries sharing a legacy of intellectual, cultural, religious, and linguistic interactions. India was among the first nations to recognise an independent Sri Lanka in 1948 and establish diplomatic relations with the island country. With the Sri Lankan Civil War outbreak, India did not hesitate to lend help for resolution and reconciliation between the Sri Lankan government and the Tamil rebels. However, the Indian Peace Keeping Force [IPKF] sent to Sri Lanka in the late 1980s to disarm militant groups did not generate desirable results since the Sri Lankan population perceived Indian involvement as unnecessary and intrusive, which climaxed in the assassination of then Prime Minister Rajiv Gandhi by an LTTE suicide bomber. Apart from the immense domestic and international criticism it received, the failure of the IPKF and its eventual disengagement climaxed into the assassination of then Indian Prime Minister Rajiv Gandhi.

The Sri Lankan Civil War and its victims, primarily the Sri Lankan Tamils, were a concern for the Indian government during and after the civil war, owing to domestic pressures. The United Progressive Alliance [UPA] government under Prime Minister Manmohan Singh was vocal about the human rights violation by the Sinhala-majority government. UPA also supported the US-led resolution criticising Sri Lanka for the same in the United Nations High Commission for Refugees (Basu 2016: 217). Although the bilateral relationship between the two neighbours has not always been smooth, it sustained a significant blow when Mahinda Rajapaksa, the Sri Lankan Prime Minister, skewed towards China for most of the major infrastructure projects. This favouritism cost India the Hambantota Port⁵ contract in the process. Following the recent development, India-Sri Lanka relations are on a rocky trajectory, mainly due to the domestic political dynamics of both the countries and the role of China.

However, following the election of Gotabaya Rakpaksa as Prime Minister in 2019, relations between India and Sri Lanka have seen close cooperation. There has been growth in trade and investment, accompanied by cooperation in the fields of development, education, culture, and defence (Ministry of External Affairs [MEA] 2019: 1). India is Sri Lanka's largest import and third largest export partner, with gross values amounting to almost USD 4.5 billion and USD 790 million as of 2019 (UN Comtrade Database). India also invested USD 3 billion as development aid in Sri Lanka, primarily catering to development cooperation via High Impact Community Development Projects [HICDPs] in areas of education, healthcare, transport, connectivity, small and medium enterprise development, and training, among other things (MEA 2019: 3).

India also funds many welfare endeavours for its Sri Lankan neighbours. The Emergency Ambulance Service, financed by the Indian Grant Assistance from 2016, covers 209 ambulances along with training and one-year operational cost. In addition, these HICDPs work towards providing livelihood opportunities to 70,000 Sri Lankans from the farming and fishing communities in Hambantota (MEA 2019: 3). Furthermore, the Indian Housing Project aims to build 50,000 houses for those affected by the Sri Lankan civil war and plantation workers (ibid). According to the MEA (2019), with an overall commitment of over INR 1,370 crore in grants, it is one of the biggest projects undertaken by the Indian government abroad. India committed to an additional 10,000 houses at a projected cost of INR 485 crore following the Indian Prime Minister Narendra Modi's 2017 Sri Lanka visit. Under a USD 318 million Indian Line of Credit Agreement signed between EXIM Bank of India and the Government of Sri Lanka in June 2017, a contract agreement for around USD 82.64 million for the supply of 160 passenger coaches to Sri Lanka Railways was signed between RITES Limited and Government of Sri Lanka in Colombo on 7 September 2018 (MEA 2019: 4). Other projects under this Line of Credit have also made significant progress.

India and Sri Lanka also signed a Free Trade Agreement in 1998, which came into effect in March 2000. The impending Comprehensive Economic Partnership

⁵ The port of Hambantota in Sri Lanka lies close to important Asian and European SLOCs that connect the Suez Canal to the Strait of Malacca, which carries two-thirds of the world's oil and almost half of the world's coal. Since the port is a part of the Chinese BRI, it also becomes susceptible to extra-territorial Chinese militarisation.

Agreement [CEPA] is most likely to expand economic engagement between the two countries beyond trade to include even more mutually beneficial sectors like fisheries, energy, pharmaceuticals, and textiles. A reduction in the number of items under CEPA will also encourage trade and investment because of increased incentives and access to markets for private businesses in the two countries.

Recent government-to-government interactions have been particularly fruitful in ensuring cultural closeness between India and Sri Lanka as the two countries traverse newer grounds for economic cooperation.

THE DRAGON ENTERS: THE CHINESE AND SRI LANKAN FRIENDSHIP

Sri Lanka turned towards China in the late 1980s after the Indian Peace Keeping Force's disastrous intervention and have remained close since then. While the two countries, with a long history of cultural affinity owing to the spread of Buddhism, have exchanged several high-level visits and undersigned agreements, contemporary scholars of International Relations and Security Studies are most intrigued by their bilateral economic ties.

China is Sri Lanka's second-largest import partner and sixth largest export partner, with the values for the same grossing up to USD 4.1 billion and USD 430 million, respectively (UN Comtrade Database n.d.). While negotiations for a Free Trade Agreement started in 2014, China has already made massive headways into the Sri Lankan market, as seen via the current market share of Huawei and the presence of Shangri-La Hotels over the Sri Lankan skyline. Private investors are often motivated by government-directed goals due to high levels of engagement among the two in China. This intense economic percolation gives China significant control over Sri Lankan markets via State and private capital in formal and informal capacities.

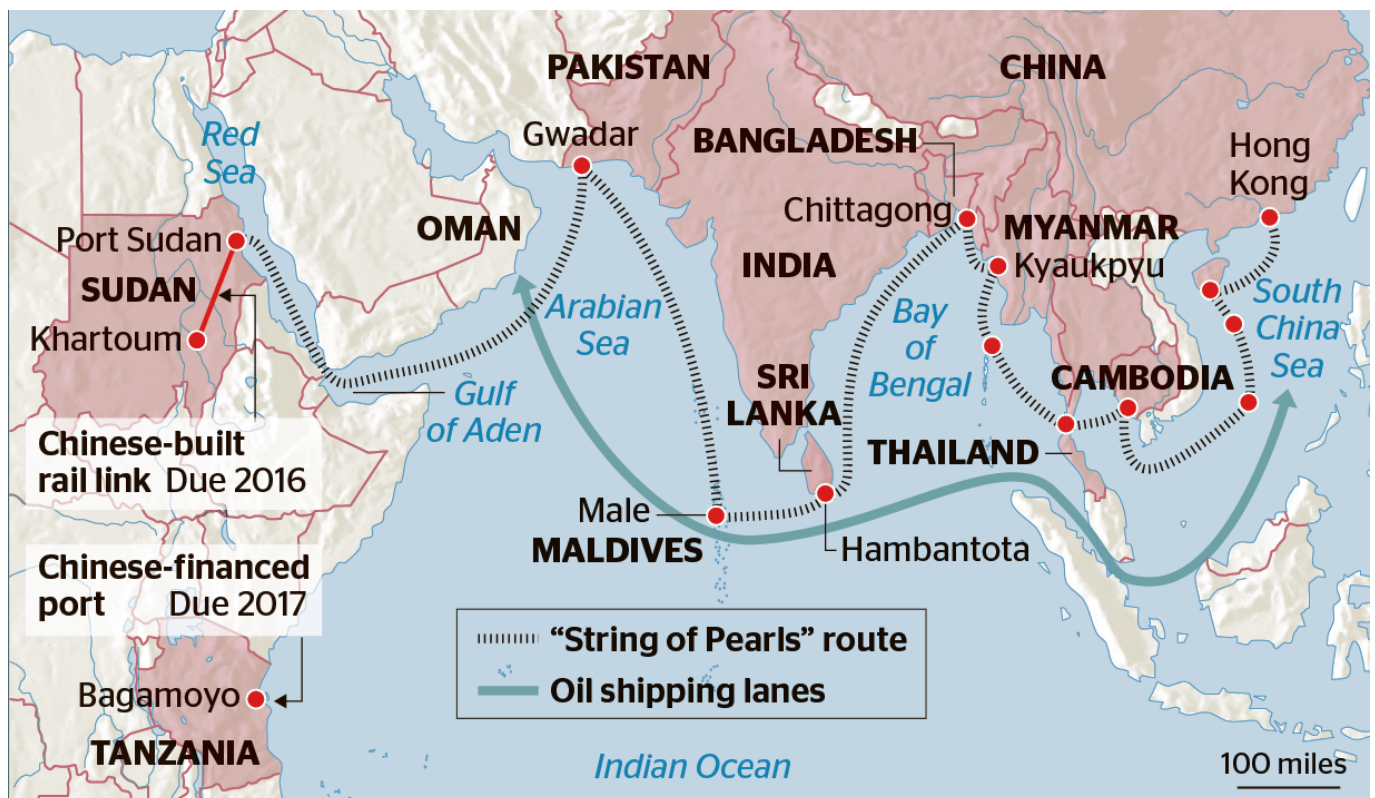
Energy generation, the third-largest sector of Chinese investment in Sri Lanka, has proved to be immensely helpful in light of the power cuts that hampered the latter's economy in the early 2000s. The Norocholai power station, co-financed by EXIM Bank China, was developed as a long-term solution to the country's problem of erratic electricity supply. Built in three phases, it is the country's biggest power station and accounts for a third of Sri Lanka's total power generation. In order to expand Sri Lankan sources of energy and invest in sustainable and clean energy, China has moved beyond non-renewable energy to invest in the renewable energy sector, especially hydropower. The Broadlands, for instance, is a hydropower project situated on the Kelani River that includes two dams and a power station with an installed capacity of 35 MW, that is 2% of the country's total installed hydropower capacity, and an annual capacity of 126 GWh (Oxford Business Group 2021). The Industrial and Commercial Bank of China and the Hatton National Bank of Sri Lanka mainly finance the project.

Under the Belt and Road Initiative, China has spent USD 8 billion in financing connectivity projects like roadways, expressways, and ports: the first two, together, are the largest sub-sector of Chinese investment in Sri Lanka, while

the latter is the second-largest sub-sector. The rationale behind investments in expressways has been improving national road connectivity, enhancing road safety and reducing the commute time within the island nation. A widely believed reason for the success of the Colombo port is believed to be an initial Chinese investment of USD 500 Million by China Merchant Port Holdings Company in Colombo International Container Terminals [CICT] and the construction of the fourth terminal. With its capacity of handling ultra-large container carriers [ULCC] or more than 20,000 twenty-foot-equivalent-unit vessels, Colombo Port is the only state-of-the-art deep-water terminal in South Asia. The CICT has helped the Colombo port become the 11th busiest port globally due to its extensive geographical coverage of services and high frequency of mainline liner service connections.

The port of Hambantota is essential to China's energy security since the country imports two-thirds of its oil supply via shipping lanes south of this port. China provided USD 1.4 billion in three fixed-rate loans for the Hambantota Port: one from EXIM Bank China and two from Chinese state-owned enterprises (Chatham House 2020: 9). To recover part of that loan, China has a 99-year-long lease on the port for Sri Lanka to cut out the operational costs. Sri Lanka cannot afford to repay this as the country is already USD 64 billion in debt, and 95% of government revenue is used to pay back loans (Limaye 2017). Such an arrangement traps the island nation in a cycle of debt that seems to stagger and allow China to increase its control over the Sri Lankan economy: a Chinese move infamous as the country's "debt trap diplomacy".

Figure 2: Oil shipping lanes and ports forming the "string of pearls" in the IOR



Furthermore, the latest investment that gives China access to 15,000 acres of land adjacent to the port for developing an industrial zone in Hambantota opens up opportunities for seafood and agriculture-based food processing or shipping services. The development of such an industrial zone can be expected to destabilise the current politics of chokepoints within the Indo-Pacific. The Strait of Malacca is a geopolitical dilemma for China because of the strait's proximity to Singapore and China's troubled relations with the country. Amidst insecurities, the Chinese fleet stationed near Hambantota, an arrangement akin to Djibouti which houses an external Chinese deployment near a critical choke point as seen in figure 1, can reassure a favourable trade movement for China. However, increased Chinese presence in the IOR is alarming for India. Hence, reconciliation with Sri Lanka becomes all the more vital.

INDIA'S POLICY PRIORITIES

To strengthen relations in the September 2020 Virtual Bilateral Summit, leaders of both the nations, PM Narendra Modi and His Eminence Mahinda Rajapaksa, discussed the need to strengthen people-to-people ties, banking on civilisational and heritage commonalities (MEA 2020).

Because of Prime Minister Gotabaya Rajapaksa's "India first" stance, relations between the two countries can be expected to improve with greater levels of government-to-government cooperation. Additionally, if India were to scale up the HICDPs running in Sri Lanka, bearing in mind the current pandemic, Sri Lanka would be able to meet a good portion of its healthcare needs. Increased intensity of training within the Emergency Ambulance Service, coupled with Indian attempts at Vaccine Diplomacy,⁶ can be seen as a diplomatic effort based on needs assessment: an approach that can prove to be immensely effective and respectful of one's partner country.

India also announced a new USD 100 million Line of Credit for undertaking solar projects in Sri Lanka during the Founding Conference of the International Solar Alliance held on 11 March 2018 (MEA 2019: 4). Given Sri Lanka's growing need for renewable energy and a lack of foreign investment in the same, the India-Sri Lanka Joint Statement on Virtual Bilateral Summit emphasised on the need to "Deepen cooperation in renewable energy with particular emphasis on solar projects under the US\$ 100 million Line of Credit from India" (MEA 2020). The Sri Lankan Ministry of Power and Renewable Energy has stated the island nation's excess capacity for harnessing solar power. It becomes vital to harness this potential during peak and non-peak hours and develop storage infrastructure for the same. With the Indian energy giant National Thermal Power Corporation Limited [NTPC] intending to open a solar park in Sri Lanka, opportunities open for a new form of diplomacy driven by needs and expanding potentials. This endeavour, unfortunately, will have to await the passing of the worst of this pandemic before construction could begin.

A NITI Aayog Report (2017: 2) stated that fish production in the Indian Ocean increased drastically from 861,000 tons in 1950 to 11.5 million tons in 2010,

⁶ Wherein the island country was supplied with 12.64 lakh units of made in India COVID-19 vaccine.

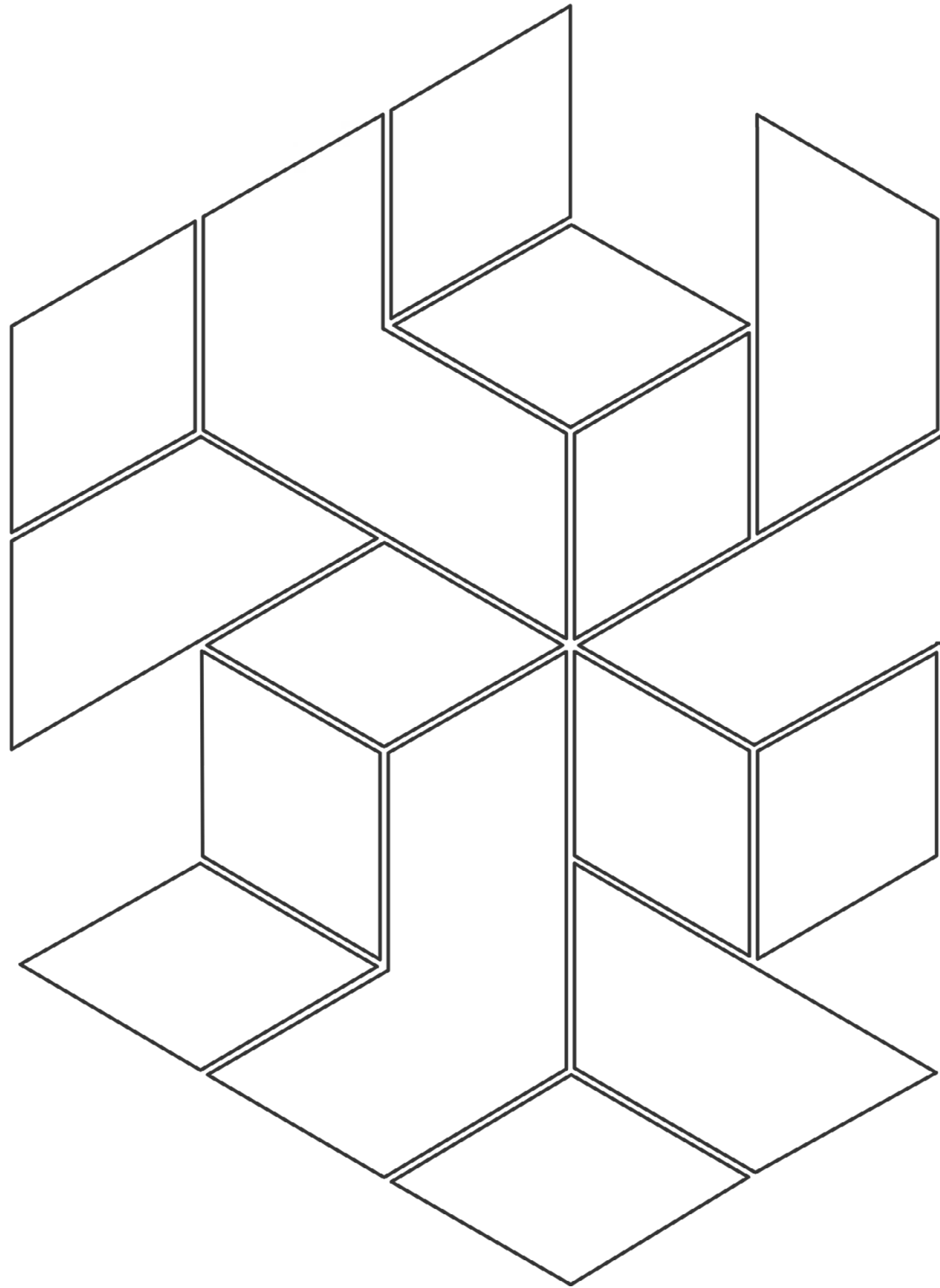
with the UN Food and Agriculture Organization [FAO] (2020: 15) report stating “while other world oceans are nearing their fisheries limit, in certain areas, the Indian Ocean’s resources have the potential to sustain increased production”. Additionally, developers have commercial interests in polymetallic nodules and polymetallic massive sulphides since they are major mineral resources for the extraction of multiple deep-sea mineral ores like cobalt, nickel, and copper (Hein et al. 2020). Therefore, tapping into the enormous potential of the Indian Ocean such as its commercial purposes, research and development, and food security, is essential for India. The National Policy for India’s ‘Blue Economy-2020’ aims to spatially orient planning along with scientific assessments of ocean resources and their sustainable use to achieve high growth projections. However, the country will need Sri Lankan cooperation in the same. Said cooperation would require addressing conflicts related to territorial waters and fishers-issues that can be resolved within the framework of CEPA guided by the Blue Economy Policy. Since coordination, communication, and clarity among multiple stakeholders at multiple levels of administration as well as the coastal communities form the basis of the ocean governance framework, this policy can undertake issues of security and geopolitics.

While investment in healthcare and energy generation can act as a judicious method of building a strong relationship with Sri Lanka, India will have to balance its diplomatic efforts vis-a-vis immediate domestic requirements. The future of the Indo-Sri Lanka relationship, nevertheless, looks like one of cooperation. And even though Sri Lanka strings along, the ocean is the costliest pearl for both India and China.

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