Abstract

Geopolitical competition is increasing everywhere, and the Indian Ocean is no exception. One of the most significant causes of this phenomenon is the Chinese-driven Belt- and Road Initiative (BRI). In its quest to challenge the economic, political, and military supremacy of Western liberal democracies and their like-minded partners in Asia, Beijing started using major transcontinental development schemes to enhance its sphere of influence. Particularly autocratic regimes tend to join China’s BRI, forming a ‘quasi-alliance’ network. However, in recent years indications emerged that autocratic elites known to be closely embedded in the BRI are facing mounting domestic political pressure due to looming economic and financial crisis situations. This SADF Focus will shed light on the case of the currently ruling Rajapaksa dynasty in Sri Lanka. China’s involvement and considerable impacts on the country’s economy since the 2000s are well documented. The island must be regarded not only as the first major destination for Chinese Foreign Direct Investment (FDI), based on geostrategic considerations, but also as a focal point for Beijing’s international financial development assistance, long before the launch of the BRI. Yet today, Colombo is undergoing a foreign policy transformation, giving more importance to its relations with New Delhi than in the past. Observers are stating that the latter would be conducted at the expense of Chinese influence in the island. This Focus argues that the apparently changing patterns of relations between Sri Lanka and China might hint at a larger transformation within Beijing’s quasi-alliance system of “willing autocrats”.

Keywords: Sri Lanka, China, Belt and Road Initiative, BRI, Authoritarian regimes, Foreign Policy, India, Rajapaksa dynasty
Introduction

Since the official launch of the action plan for the Belt and Road Initiative (BRI) in March 2015 (formerly known as One Belt, One Road/OBOR, or New Silk Road) - the signature project of the Chinese President Xi Jinping - observers around the globe have been astonished by the vast dimensions and financial implications of this international development scheme. Aiming not only at the integration of western China with Central and South Asia, but also at connecting whole continents (foremost Asia with Europe and Africa) the BRI brightly represents a global claim to power by the Communist Party of China (CPC) under Xi’s leadership. Considering the tremendous connectivity gap in “Eurasia” and (other) structurally backward or less favoured regions of the world, it does not come by a surprise that many governments (especially those in countries with smaller and underdeveloped economies, with limited financial resources and lacking appropriate infrastructure capacities) embraced Beijing’s vision for an improved global connectivity. However, there were also significant criticisms, both within and outside the community of BRI member states, regarding the potential ‘hidden agenda’ attached to Beijing’s international financial development assistance. Concretely, by monitoring numerous Chinese-initiated, apparently politically motivated, large-scale projects with dubious economic benefits for both host countries and local citizens (so-called ‘roads to nowhere’ or ‘white elephant projects’), experts increasingly expressed their concerns regarding negative financial ramifications (‘debt traps’), environmental damages, economic distortions affecting local businesses, loss of sovereignty due to rising Chinese leverage within crucial decision-making processes beyond BRI projects, among other issues. Analysts questioned Beijing’s announced ‘win-win rhetoric’ (meaning that everyone would benefit from BRI). Some started to wonder whether Beijing is aiming at

1 The idea to launch the BRI (then OBOR) was announced for the first time by Xi Jinping 2013 in Kazakhstan.

2 A phenomenon also nurtured by China’s increasingly assertive public diplomacy including the instrumentalization of western think tanks, academics, media and other political opinion makers.

3 A 2017 report by the Asian Development Bank estimated that ‘Asia will need to invest $1.7 trillion per year in infrastructure until 2030 to maintain its growth momentum, tackle poverty, and respond to climate change’.

4 Such projects with low returns, if at all, are found in Sri Lanka, for example the Colombo Port City development project, the Hambantota Port project, the Mattala Rajapaksa International Airport, or the Extension of the Southern Expressway Project.
transforming “BRI members” into client states serving Chinese geopolitical- and strategic interests. It is important to note that only much after Xi announced the BRI (then OBOR) did Washington, Brussels, or New Delhi react with their own notions and plans for the improvement of transnational, intercontinental connectivity – such as the Indian-initiated ‘Asia-Africa Grow Corridor’ or the ‘International North–South Transport Corridor (INSTC)’, the EU-Asia Connectivity Strategy, or the lately formulated notion of a US-driven G7 ‘Build-Back Better World’ (B3W) Initiative. However, most these visions still lack the necessary motivations by the involved institutions; foremost they lack the financial backing required from their governments so as to create a serious alternative to China’s BRI. It is quite possible, therefore, that most states willing to participate in Xi’s transcontinental infrastructure scheme are doing so either due to a lack of (unconditional) alternatives to “non-Chinese options” for funding large-scale development projects (at least until the outbreak of the pandemic), or there are too many restrictions\(^5\) attached to existing financial support variants by traditional institutions such as the International Monetary Fund (IMF), the World Bank (WB), the Asian Development Bank (ADB), or the US and the European Union (EU).

BRI critics gained particularly momentum, since especially the political leadership in countries with authoritarian systems (or countries known for their poor democratic development) seemed to cultivate an extraordinarily strong affinity towards the Chinese style of governance, wilfully designing development projects and much welcoming the BRI. A phenomenon obviously pushed by the Chinese side, who has generally “demonstrated an ability to work with any type of government it encounters”, yet obviously “prefers to work with small-coalition autocratic governments over more unpredictable [liberal] democracies”.

**The case of Sri Lanka – The Rajapaksa rule and increasing Chinese presence**

The case of Sri Lanka serves as a remarkable point of reference, for several reasons. To begin with, the island state was the first major destination for Chinese international financial development assistance as well as Foreign Direct Investment (FDI), both based on geostrategic considerations. Already in 2011, China surpassed

\(^5\) Like the requirement to conduct far-reaching, unpopular economic-financial reforms or political conditions, foremost regarding the respect of human rights and improvement of the quality of democracy.
India and became Sri Lanka’s largest source of FDI. Sri Lanka took a central position in Xi’s international development visions, a long time before the BRI was put on track. Beijing’s alternating approaches towards the various governments in Colombo (which differed from each other regarding the internalisation and practising of democratic norms and values) proves that the propagated ‘non-interference policy’ in the domestic affairs of collaborating countries is a myth. In fact, this so-called ‘non-interference policy’ can be translated into support for incumbent leaders known for their autocratic stands. This was exemplified when Beijing established a close relationship with the then ruling “Rajapaksa family”\(^6\), usually described by international observers as ‘pro-China’ with an ‘authoritarian bent’. The South Asian Island State’s joined several BRI projects at times coinciding with temporarily emerging authoritarian tendencies, flanked with an uptick of truncations of political rights and dubious attempts of “constitutional engineering”\(^7\). The Rajapaksa, as well as many other like-minded political dynasties collaborating with China, were apparently convinced that closer ties with Beijing would first and foremost contribute to an ‘authoritarian endurance’ of their rule.

However, the emerging Chinese presence in Sri Lanka reached a peak in the early 2000s, when Colombo was facing mounting pressure from the international community. This was due to the deteriorating human rights situation in the country, particularly in 2009 during the final stage of the guerrilla war between government forces and the insurgency group Tamil Tigers of Tamil Eelam (LTTE), a US-designated ‘Foreign Terrorist Organization’ (FTO). In order to mitigate the economic and political ramifications of Sri Lanka’s isolation, Beijing came forward with financial assistance, supplies of military equipment, and diplomatic support for Sri Lanka at the United Nations so as to save it from crippling international sanctions. There are little doubts that Chinese support for the then Buddhist-Sinhalese political leadership contributed to the LTTE’s defeat. In return, the Chinese government has profited from exploiting the intricated, informal, family-based decision making within the emerging Rajapaksa regime (and its clientelist, nepotistic network of supporters) to realize its own external interests. Beijing gained access to projects in critical infrastructure sectors within Sri Lanka, such as

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\(^6\) More concretely, the warming up between Beijing and Colombo started during Mahinda Rajapaksa’s term as President from 2005 to 2015.

\(^7\) Here, understood as attempts of critical -even undue- amendments to the country’s constitution.
to the well-located ports of Colombo and Hambantota, as well as other high-profile development projects.

**Rajapaksa’s conundrum: Beijing as a reliable partner for ensuring regime endurance?**

It is also common sense that the extraordinarily strategic location of the island - providing any maritime force, especially a blue water navy, a vantage position in the Indian Ocean - can be identified as the prime driver of Beijing’s engagement with Colombo (and to a lesser extent the opportunity of establishing a closer relation with the Rajapaksa family). Sri Lanka also serves as an example for the apparent Chinese policy to conduct only **limited bilateral interaction so as to increase the prospect or survival** of their “willing autocratic leaders”. An **experience** the “Rajapaksa clan” made in the context of their efforts to stay in power during the 2015 election period. According to claims by the New York Times, China provided funds for Rajapaksa’s electoral campaigns.\(^8\) It is difficult to prove such a behind the scenes support - especially as regards effectiveness; in any case, it could not avoid Rajapaksa’s **surprising defeat** at the polls. Moreover, the amount of money the Chinese were willing to provide could also not prevent the **large-scale defections** of (former) Rajapaksa loyalists and the subsequent dissolution of Rajapaksa’s socio-political support base.\(^9\) It became clear that Sri Lankan voters are increasingly concerned about Beijing’s growing presence and influence on the island – and the economic ramifications involved. A fact which doubtless outweighs any Chinese support for one’s own rule when it comes to acting through the ballot box as the ultimate decision-making mechanism. This is what the Rajapaksa’s finally understood. They accordingly modified their political agenda during the following years, particularly during the latest election period. The Rajapaksa’s new rhetoric adopted a cautious position when elaborating on their stand on China and notions

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\(^8\) The **media stated** that “during the 2015 Sri Lankan elections, large payments from the Chinese port construction fund flowed directly to campaign aides and activities for Mr. Rajapaksa, who had agreed to Chinese terms at every turn and was seen as an important ally in China’s efforts to tilt influence in South Asia away from India. The payments were confirmed by documents and cash checks detailed in a government investigation seen by The New York Times’.

\(^9\) However, it needs to be highlighted that the Chinese government, after a transition period (around two years), started to support the then new administration of President Sirisena (the main defector from the Rajapaksa regime responsible for its temporary downfall), with the provision of a $295 million USD development grant. This is an additional factor leading the Rajapaksa to reassess their relationship with the Chinese government.
on the cause of ties between Colombo and Beijing. The Rajapaksa also avoided any anti-India statements during their campaigns. The Rajapaksa dynasty’s return to power after the 2019 presidential and 2020 parliamentary elections was followed by the country’s latest foreign policy shift towards the traditional balancing between India and China.

The island’s acute economic and financial crisis
Considering the current situation in Sri Lanka, it appears that an alternation of Rajapaksa’s approach towards the Chinese government seems again a matter of political survival, but this time seemingly - at least for the moment - to Beijing’s disadvantage. Sri Lanka is now ‘entangled in a deep economic crisis’. The island’s tourism-dependent economy has been ‘hammered by the pandemic’, a major source of foreign exchange earnings, leading to a drop in Foreign Exchange Reserves (FOREX). the Forex reached its lowest point since May 2009 ($1.6 billion in November 2021). The situation is worsened by the mounting debt, currency crisis, and high inflation. Subsequently, international rating agencies such as Moody’s and Fitch have expressed serious doubts over the island nation’s ability to repay debts and downgraded its credit rating. It will now be more challenging and costly for the island to gain capital from international financial markets. Additionally, the country has been facing shortages of many essentials for months now because of its persistently dwindling FOREX position. Lacks include gas for cooking, contributing to the simmering threat of a major energy crisis, forcing the island’s main energy utility to ration electricity. Besides private households, the country’s industrial sector also faces setbacks due to high energy costs.

By monitoring these bleak trajectories, numerous analysts are identifying Chinese development projects, especially their related debts, as a causal factor for the actual crisis. Beijing is one of largest lender to the island state. Yet one must add that China accounted (only) for about 10% of Sri Lanka’s $35bn foreign debt in April 2021, according to Sri Lankan official data. This places China, Sri Lanka's fourth biggest lender, behind international financial markets, the Asian Development Bank (ADB), and Japan. Here, it is interesting to note that publicly available data only

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10 Not only the changing position regarding China but also several domestic factors much contributed to the success of Rajapaksa’s otherwise heavily national security-orientated election manifesto, foremost the political fallout of the 2019 Easter Sunday terrorist bombing.
partly reflects the country’s real, overall debt burden. According to officials, ‘China’s total lending could be much higher when taking into account loans to state-owned enterprises and the central bank’, contributing to Sri Lanka’s grim economic perspective. An assessment further substantiated by the fact that Colombo was ‘forced in 2017 to lease the facility to a Chinese company for 99 years’. Nevertheless, both domestic and international experts identified the country’s repayments of Chinese debts as a major source for the country’s deteriorating economic conditions.

In sum, after observing the apparently insufficient support for the viability of their rule, combined with the country’s rapidly deteriorating economic and financial situation, it is not a revelation for analysts that the very same Sri Lankan leaders who politically benefitted from Chinese support in their decisive but brutal ending of the LTTE upheaval and following international diplomatic blowback are today fundamentally reassessing the country’s relations with Beijing.

_Sino-Lankan slugfest – The end of a short-lived liaison?_

Despite indications that the Rajapaksa’s approach towards China is fundamentally in a flux, many observers expected the return of ‘Sri Lanka’s on-and-off again leaders’ to provide a strong opportunity for Beijing ‘to reignite its relationship’ with Colombo. This turned out to be a false speculation. In fact, the above-mentioned re-assessment of Sino-Lankan relations by the Rajapaksa finds a clear expression in a public declaration by Gotabaya Rajapaksa, immediately after assuming office as President, wherein he aims at the renegotiation of ‘the Hambantota port deal to ensure greater local control’ and announces the deployment the country’s navy ‘in a location to ensure that Colombo can keep a watch on Chinese activities’. The new government also promised ‘to review all project loans’ by China and promulgated a new policy more receptive vis-à-vis India’s security concerns and interests. New Delhi was worried not only about the rapid and assertive rising Chinese presence in its neighbourhood, but particularly about Beijing’s engagement with the Hambantota port, fearing that China ‘would take it over for future military use’. Bilateral ties between China and Sri Lanka experienced another severe challenge when Sri Lanka’s National Plant Quarantine Service (NPQS) rejected ‘a Chinese shipment of organic fertiliser that local farmers and some experts claimed was
contaminated.’\(^{11}\) China’s leadership did not take Colombo’s apparent policy shift easily. It reacted sharply in a twofold way: from the government side as well as in the corporate sphere. Beijing has evaded Sri Lankan government’s request to **restructure the repayment of its debt**. Instead, Chinese authorities noticed that China is not Sri Lanka’s only major donor, as the country has severe debts to other countries and international financial institutions as well. In other words, Beijing does not feel responsible or obliged to bail out Colombo from its current financial crisis. China avoided offering concrete plans for restructuring its loans to the South Asian state and preferred sticking to non-committal lip services regarding potential assistance regarding the economic strain.

On the corporate side, as a retaliation for the rejection of the Chinese fertiliser and the consequently **blocked payment** (via the state-owned Ceylon Fertilizer Company, on court order) for the producing firm Qingdao Seawin Biotech, Beijing **blacklisted** Sri Lankan state-owned People’s Bank ‘for non-payment of dues’. Moreover, the Chinese firm pushed for **economic sanctions against Sri Lanka**, including import restrictions on tea, another major economic sector in the country.

A Chinese import ban of Sri Lankan tea would have extraordinarily negative economic (and reputational) impacts, since Colombo repays debts (for example for **Iranian oil**) in the form of tea. In the end, Sri Lanka was forced to give in and pay for the fertilizers. In fact, it bought a new batch of that fertilizer from the same firm, and Beijing demanded that the NPQS director offer a ‘**compensation for the loss and damage caused to the Chinese company**’.

Beijing made it clear that the Rajapaksa administration— and any other upcoming government in Sri Lanka - can’t take Chinese financial development assistance and other types of support for granted. Moreover, China flexed its muscles and showed Colombo its limitations when ‘**facing the displeasure of Beijing**’ and having to withstand its pressure. These strong reactions by the Chinese leadership can be seen as a clear indication of Beijing’s ongoing determination to gain a strategic foothold **in Sri Lanka**. Beijing became uncertain of whether Sri Lanka can still be seen as a base for its foreign policy of breaking up any ‘**anti-China network**’ in the extended region. Numerous experts are convinced that the Rajapaksa family is not willing to

\(^{11}\) It was stated by the Sri Lankan government agency that the shipped consignment (20,000 tons of organic fertilizer) had pathogens, organisms (bacteria) **causing disease** to its hosts (especially harmful to carrots and potatoes), meaning that it ‘could induce a crop failure’ in the country.
(completely) dissolve its close ties with China. Nevertheless, Beijing knows it must modify its strategy vis-à-vis the island if it is not to lose Sri Lanka as a base for its foreign policy in the Indian Ocean – especially crucial so as to challenge New Delhi’s claim to primacy in these waters. Beijing’s earlier support for the Sirisena administration as well as its latest measures to reach out to Sri Lanka’s Tamil community can be seen as attempts to win over broader sections of the island’s state and society.

**Conclusion – the BRI on the edge: Is China losing its autocratic allies?**

From a comparative perspective, it is crucial to highlight that growing frustrations (not only among Sri Lanka’s general public but also among the ruling Rajapaksa) over Beijing’s development projects in Sri Lanka do not constitute an isolated case. They must be seen as part of a larger, international phenomenon, which includes an emerging rejection of Chinese influence, business practices (like the ignorance of internationally accepted labour laws), assertive diplomacy (also described as ‘Wolf Warrior’ or ‘Shotgun diplomacy’), and coercive economic and military measures when any behaviour is perceived as non-compliant with China’s national interests. Even among the people of Pakistan, China’s ‘iron brother’ and ‘all-weather friend’, criticisms against Beijing’s development projects is increasing – and Chinese workers are targeted not only by anti-Chinese jihadists but also by armed groups not willing to accept such exploitation of their homeland. Pakistan’s hybrid, civil-military regime spent tremendous efforts not only to censor the press and control the academic as well as think tank spheres but also to silence all critical voices regarding China. This is undertaken to such a level that anyone who questions the China-Pakistan Economic Corridor/CPEC (Wolf, 2019), the BRI’s flagship project, is identified as an enemy of the state. The brutal suppression of protesters in Kazakhstan¹², not only a key partner country in but also one with a high symbolic value for Xi’s connectivity plans for central Asia(where the BRI was first announced), is telling. As is the growing dissatisfaction within African BRI partner countries (such as Kenya) over the poor quality of delivered development work or projects simply put on hold by Beijing¹³. Beijing’s ‘willing autocratic collaborators’

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¹² Part of the protest were sparked by Chinese development projects. Here, among other critical development projects, a ‘planned light-railway system that was the most high profile belt and road project in Kazakhstan is on hold after the collapse of a local bank that handled Chinese funds’.

¹³ Like the Mombasa-Nairobi Standard Gauge Railway (SGR) project, which was supposed to be a
worldwide can be seen as under pressure. One can wonder whether we are witnessing the beginning of the end not only of the BRI but also the success story of China’s economy? And could the growing resistance against Chinese economic and political practices among its ‘BRI allies’ create room for the “revitalisation” of respect for human rights, the promotion of the rule of law, good governance practices, and the development of transparent and democratic (liberal) political institutions?
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