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Issue Brief

Growing Chinese Investments in Sri Lanka

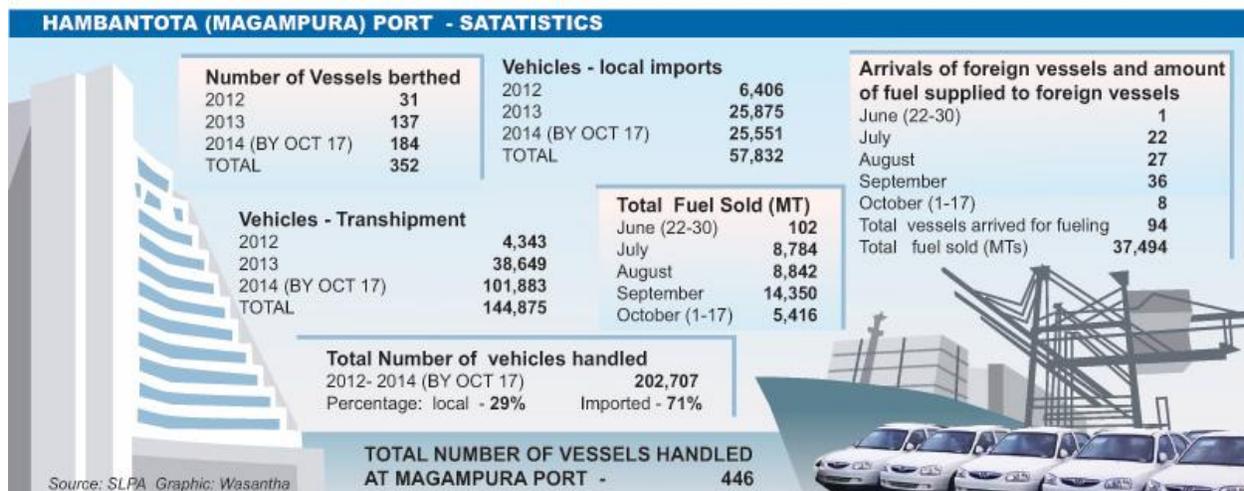
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Over the decade starting 2005-2015, China has emerged as the leading source of Official Development Assistance (ODA) and Foreign Direct Investment (FDI) in Sri Lanka to the tune of \$14 billion. Most of it is ODA in loans and grants – \$12 billion in sectors like energy, infrastructure and services. There is private Chinese investment in the country too – \$2 billion and growing¹.

The main reason for China's increasing presence in Sri Lanka is that Colombo is struggling to find alternative sources of foreign capital. This has opened the gateway for China to deepen its economic roots in Sri Lanka. China has invested a huge amount of \$8 billion in Sri Lanka in the last few years, particularly in port projects such as the Hambantota and Colombo ports.²



(<http://www.sundaytimes.lk/141019/uploads/hambantota-port.jpg>)

The Hambantota port will occupy an area of 4,000 acres (16km²) and will be the largest of its kind in South Asia. It will have a capacity to accommodate 33 vessels at a time. When fully operational, it will be the world's largest port built on land and will handle about 20 million TEUs a year. It will also be the second largest port operated by the Sri Lanka Ports Authority in the country (after the Port of Colombo)³.

¹ <http://www.gatewayhouse.in/chinese-investments-sri-lanka/>

² <http://economictimes.indiatimes.com/news/defence/china-mum-over-sri-lanka-rejecting-submarine-docking/articleshow/58645265.cms>

³ <http://www.ship-technology.com/projects/port-of-hambantota/>

COLOMBO PORT CITY PROJECT

AREA: Constructed between the southern edge of the new Colombo South Port and the Fort Lighthouse.

Total area of sea to be reclaimed: 450 acres.

CONSTRUCTION: The project was launched on 17 September 2014 by the

former Sri-Lankan President Mahinda Rajapaksha and the Chinese President Xi Jinping. Expected to be completed in 39 months. It was suspended by the new Sri Lankan government early in 2015

TOTAL COST: \$1.4 billion

INFRASTRUCTURE: The project will include roads, water, electricity, communication facilities to set up shopping areas, water sports area, mini golf course, hotels, apartments, Formula One track, recreation areas and marinas.



(http://dailynews.lk/sites/default/files/news/2016/03/15/z_new800.jpg)

The Colombo Port City was conceived by Sri Lanka and was at first developed by a local company. However, it is now an almost 100% Chinese undertaking. The financial backing for the project comes via foreign direct investment from China Harbor Engineering Corporation, a subsidy of China Communications Construction, a Chinese state-owned enterprise.⁴

Much of the infrastructure project funding comes through Chinese government companies. For example, the \$1.3 billion Norochcholai Coal Power Plant is being built by the China Machinery Engineering Corporation, and Hambantota's \$1 billion in loans comes from China Harbour Engineering Company Ltd. and Sino-Hydro Corp, both of which are building the port. Large projects like these make it

⁴ <http://www.thehindu.com/news/international/china-and-sri-lanka-decide-to-make-port-city-into-a-financial-hub-as-part-of-20-year-plan/article8455509.ece>

easier for Beijing to draw Sri Lanka into its 21st Century Maritime Silk Road project, as a part of its One Belt, One Road initiative.

Currently, China is also working on infrastructure related projects like railways, roads and telecommunication towers. China also re-launched a \$ 1.4 billion project of Colombo Port City after consensus from both side to amend the previous agreement to extend Chinese ownership on the section of the land to 99 years.

Overall, China's FDI has clearly overshadowed that of other countries in the island nation. In 2005, China's FDI in Sri Lanka was \$16.4 million, or just under 1% of total Sri Lankan FDI. By 2015, Chinese private investments reached \$338 million, constituting 35% of Sri Lanka's total FDI. In contrast, The Netherlands share of FDI was 9%, India's, like Malaysia's, was 7%, and Singapore only 3%.⁵

China and Sri Lanka have developed very strong links over the decades. China is the largest investor in Sri Lanka and the day when China will be its principal bilateral trade partner is just on the horizon. At this stage when Colombo is struggling to pay \$8 billion to China, the latter is willing to give an additional amount of \$24 billion as part of the One Belt One Road (OBOR) initiative.

In a visit to Beijing in May 2017, the Sri Lankan Prime Minister Ranil Wickremesinghe was told by his Chinese counterpart Premier Li Keqiang that, "China hopes that Sri Lanka can create a good legal, security and public opinion environment for its investment projects in the Indian Ocean country."⁶

Prime Minister Wickremesinghe while talking about OBOR mentioned that "it will provide the much-needed hard and soft connectivity in the Indian Ocean required for rapid economic and social development. But he also warned that it will succeed only if peace and freedom of navigation in the Indian Ocean are maintained."⁷

In an effort to make use of its strategic location to become the hub of Indian Ocean, the Sri Lankan government is already working on three major port projects: Colombo, Hambantota and Trincomalee, and also working on international airports which includes Colombo and Mattala, all of which are

⁵ <http://www.gatewayhouse.in/chinese-investments-sri-lanka/>

⁶ <http://www.channelnewsasia.com/news/asiapacific/china-hopes-sri-lanka-fosters-good-atmosphere-for-projects-8855496>

⁷ <http://bdnews24.com/world/2017/05/16/sri-lankan-prime-minister-calls-for-freedom-of-navigation-at-obor-summit>

connected by road and rail to the proposed special Economic Zones.⁸ These initiatives will transform Sri Lanka into a shipping, aviation and a logistics hub. Sri Lanka will also be focusing on building hard infrastructure such as roads, water supply reservoirs and power supply grids.

The Belt and Road Initiative complements Sri Lanka's own initiative as they offer similar collaborations. A few of these proposed framework ventures, including the Hambantota Port, the Mattala airport terminal and the Southern Highway have been completed with funds from Chinese establishments, for example, the Exim Bank.

Moreover, Sri Lanka is adding force to its monetary network by setting up an offshore financial centre in the Colombo Port City, which is a real estate development project which commenced under OBOR initiative.

Considering this environment, building a strong relationship with Sri Lanka was a logical and prudent step for China, as this confers a strategic advantage to it in protecting its economic interests in the Indian Ocean region.

⁸ Ibid.