



## HAMBANTOTA: CHANGING HANDS

By  
Areeba Arif  
Research Assistant

Edited by  
Najam Rafique

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



Sri Lanka formally handed over the strategic port of Hambantota to China on a 99 year lease on December 9, 2017.<sup>1</sup> The port, and investment zone around the port will be controlled by two Chinese firms namely, Hambantota International Port Group (HIPG) and Hambantota International Port Services (HIPS) and by Sri Lanka Ports Authority.<sup>2</sup>

The \$1.3bn port was built with loans from a Chinese state-owned bank and opened in 2010. But the Sri Lankan government has struggled to repay the debt, as with the Hambantota project, the country came across heavy losses. Sri Lanka also took loans for infrastructure development projects; eventually Colombo now owes China a total of \$8bn.<sup>3</sup>

The Sri Lankan Prime Minister Ranil Wickremesinghe during the handing over ceremony stated that "With the Hambantota port agreement we have started to pay back the loans, Hambantota will be converted to a major port in the Indian Ocean".<sup>4</sup>

<sup>1</sup> Kai Schultz, "Sri Lanka, Struggling With Debt, Hands a Major Port to China," The New York Times, December 12, 2017. Accessed December 21, 2017, <https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html>

<sup>2</sup> "Sri Lanka hands over Hambantota port to China for 99 years." Samaa TV. December 12, 2017. Accessed December 21, 2017.

<https://www.samaa.tv/economy/2017/12/sri-lanka-hands-hambantota-port-china-99-years/>

<sup>3</sup> Kai Schultz, "Sri Lanka, Struggling With Debt, Hands a Major Port to China," The New York Times, December 12, 2017. Accessed December 21, 2017, <https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html>

<sup>4</sup> Press Trust of India, "Maldives signs trade pact with China," The Hindu, December 08, 2017. Accessed December 21, 2017, <http://www.thehindu.com/todays-paper/tp-international/maldives-signs-trade-pact-with-china/article21374221.ece>

After this agreement Chinese firms, under the state-controlled China Merchants Port Holdings company, now hold a majority stake in the port as part of a joint venture with the state-run Sri Lanka Port Authority.<sup>5</sup> The lease agreement, which was signed in July, also includes wide-ranging tax discounts for the port and a 32-year tax break for the Chinese firms. For its part, China has paid Sri Lanka an initial sum of \$300 million, with further payments to come, though exactly when, is ambiguous.<sup>6</sup>

International reaction to the port handover has focused on China's increasing geopolitical ambitions, while locals have voiced fears of a loss of Sri Lankan sovereignty. When the agreement was signed in July, local MP Namal Rajapaksa tweeted: "Government is playing geopolitics with national assets? #stopsselling SL".<sup>7</sup>

Also on Twitter, Brahma Chellaney, an Indian author and political analyst, explained the deal as "debt-trap diplomacy", saying Chinese loans are often given in exchange for strategically important physical assets which can be "collateralized".<sup>8</sup>

For Beijing, it's getting hold of Hambantota is part of its longer-term 'One Belt, One Road' (OBOR) initiative. Other OBOR projects include a \$10.7b plan to develop the Omani town of Duqm into an industrial city, which will change the dusty port into a major transit hub. Closer to Hambantota will be Pakistan's Gwadar port, which Beijing is developing as a key part of the China-Pakistan Economic Corridor (CPEC).<sup>9</sup>

Along with Sri Lanka, China has added Maldives in the Indian Ocean to its mounting sphere of influence, and a free trade agreement has been completed in November.<sup>10</sup> Hosting Maldivian President Abdulla Yameen in Beijing China's leader Xi Jinping said, "China considers the Maldives as an imperative partner to building the 21st Century Maritime Silk Road." President Yameen,

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<sup>5</sup> "Sri Lanka hands over Hambantota port to China for 99 years." Samaa TV. December 12, 2017. Accessed December 21, 2017.

<sup>6</sup> <https://www.samaa.tv/economy/2017/12/sri-lanka-hands-hambantota-port-china-99-years/>

<sup>7</sup> Press Trust of India, "Maldives signs trade pact with China," The Hindu, December 08, 2017. Accessed December 21, 2017,

<http://www.thehindu.com/todays-paper/tp-international/maldives-signs-trade-pact-with-china/article21374221.ece>

<sup>8</sup> Ibid.

<sup>9</sup> 赵满丰, "Hambantota Port deal opens up a new era for China- Sri Lanka cooperation," Hambantota Port deal opens up a new era for China- Sri Lanka cooperation - Opinion - Chinadaily.com.cn, , accessed December 21, 2017, [http://www.chinadaily.com.cn/opinion/2017-08/10/content\\_30420018.htm](http://www.chinadaily.com.cn/opinion/2017-08/10/content_30420018.htm)

<sup>10</sup> Press Trust of India, "Maldives signs trade pact with China," The Hindu, December 08, 2017. Accessed December 21, 2017,  
<http://www.thehindu.com/todays-paper/tp-international/maldives-signs-trade-pact-with-china/article21374221.ece>

meanwhile, stated that China was "among our closest friends, most trusted and most dependable partners."<sup>11</sup>

However, such plans are part of Chinese geopolitical goals that will see Beijing testing the United States as the world's paramount maritime power; with some apprehensions among the United States and India that China may be seeking to use ports such as Hambantota, Duqm and Gwadar as naval bases.



*Source: Google Maps*

On the other hand, India has grand plans of its own. New Delhi is looking to buy a 40-year lease of the mostly unused airport Mattala Rajapaksa International Airport (MRIA) of Sri Lanka that along with Hambantota port is worth \$300 million.<sup>12</sup> David Brewster, an expert in South Asian strategic affairs at the Australian National University's National Security College, wrote of this plan: "A key element in any overseas naval base, and even a logistics facility, is easy access by air for people and supplies". In short, India is spending \$300m buying an airport to block a Chinese naval base.<sup>13</sup>

Moreover, India had expressed concerns regarding Chinese-built projects especially the Colombo Port City and the Hambantota port in the past. In both these cases, the agreements were revised superficially to address the concerns of India as well as of some other countries.

<sup>11</sup> Ibid.

<sup>12</sup> "India in talks to operate airport near Chinese port in Sri Lanka", Zee News, October 13, 2017. Accessed December 21, 2017,  
<http://zeenews.india.com/india/india-in-talks-to-operate-airport-near-chinese-port-in-sri-lanka-2049852.html>

<sup>13</sup> "Why India is buying the world's emptiest airport," Lowy Institute, , accessed December 21, 2017,  
<https://www.lowyinstitute.org/the-interpreter/why-india-buying-world-s-emptiest-airport>

India's main apprehension has been the long term impact of Chinese state-owned companies acquiring equity in the Sri Lankan economy and the extent to which Chinese influence on Sri Lanka's economy would affect Colombo's ability to practice an independent foreign policy.

With Sri Lanka fast becoming a competitive battleground for India and China, the country faces some serious foreign policy juggling between the two..