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## Issue Brief

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

# Hambantota Port Deal: On the Chessboard of Regional Power Politics

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**The Chinese Hambantota Port Deal with Sri Lanka indicates its growing economic and political clout in South Asia. In comparison with India, China has emerged as a relatively handy option for**



**Sri Lanka to pursue its goals of economic prosperity. With this deal, Beijing has certainly entered the domain which India has long considered its area of influence. On part of China, the deal is yet another smart move of encircling India in the South Asian region.**

On July 29, 2017, Sri Lanka inked a US\$ 1.1 billion deal with China for its southern deep seaport in the Indian Ocean, Hambantota. Before signing the deal, the concession agreement on Hambantota Port between China Merchants Port Holding Company (CMPHC) and Sri Lanka Port Authority (SLPA) was tabled and debated in the Sri Lankan parliament on July 28-29 respectively. As per the agreement, the port has been leased to CMPHC for 99 years and about 15,000 acres land nearby for establishing an industrial zone.<sup>1</sup> After dividing the port operations into two categories: commercial and security, two separate companies were formed to deal with these matters.

Hambantota Port International Port Services Company (HIPS) has been formed to undertake the security operations whereas Hambantota International Port Group (HIPG) would deal with the commercial operations. The majority equity of HIPG is vested with CMPHC, holding 85% of shares, and the rest of 15% with SLPA. On the other hand, HIPS has 50.7% of shares of the government of Sri Lanka and SLPA, while CMPHC holds 49.3% of shares.<sup>2</sup>

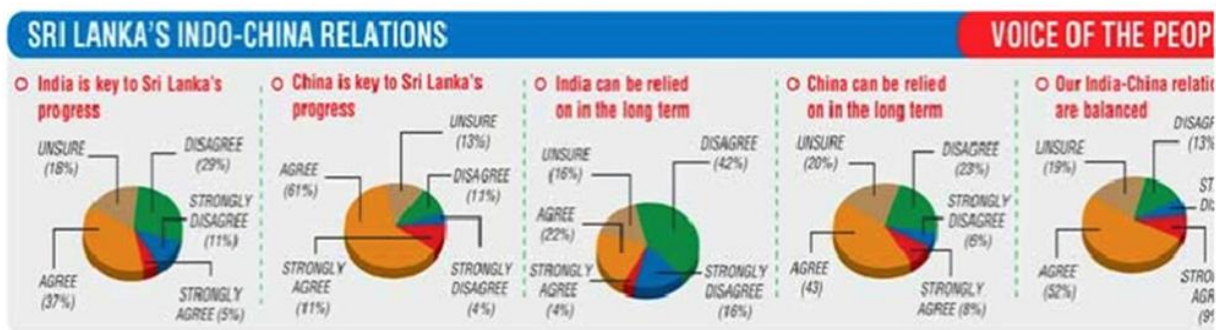
The remarkable feature of this deal is that the sole responsibility and authority of the port, in relation with national security, lies with the Government of Sri Lanka. Consequently, Sri Lanka has the right to

<sup>1</sup> "Sri Lanka Signs Deal on Hambantota Port with China", *BBC*, July 29, 2017.  
<http://www.bbc.com/news/world-asia-40761732>

<sup>2</sup> Sanjeevi Jayasuriya, "Two Companies to Operate H'tota Port", *Sunday Observer* (Colombo), July 30, 2017.  
<http://www.sundayobserver.lk/2017/07/30/business/two-companies-operate-h%E2%80%99tota-port>

appoint a port regulator and deploy its local personnel to carry out overall port security, immigration and emigration activities, and customs handling. Especially in the case of a foreign naval ship at the port, the permission would need to be obtained from the Government of Sri Lanka. In this regard, the Ports and Shipping Minister, Mahinda Samarasinghe has said that the laws were applicable to operations of the Chinese company. He said, “The transactions will be subject to all applicable laws of the country such as Sri Lanka Ports Authority Act, Merchant Shipping Act, Customs Ordinance, Immigration Regulations, License of Shipping Agents and other applicable national laws, and international treaties and conventions.”<sup>3</sup>

This deal is remarkable in many ways. It has taken Beijing-Colombo relations to another plane. It reflects that China has emerged as a credible economic partner of Sri Lanka. The commercial activities at the port will inject a new vitality into Sri Lanka’s strategic economic partnership with other countries. It will increase the country’s foreign exchange reserves by encouraging Chinese investors to establish cement and Iron industries, and oil refineries in and around the port. According to a survey conducted by a research firm Kantar TNS, which appeared in a leading business magazine in Sri Lanka, LMD, 72% of the participants believed that China was the key to Sri Lanka’s progress.<sup>4</sup> This survey also reflected an interesting change in the public opinion on the matter of balancing India and China. Fifty two per cent of the participants agreed that Sri Lanka has maintained a balance, so far, between India and China.



**Source:** “China is Key to Sri Lanka’s Progress: Survey”, *South Asian Monitor*, August 18, 2017.  
<http://southasianmonitor.com/2017/08/18/china-key-sri-lankas-progress-survey/>

<sup>3</sup> Ibid.

<sup>4</sup> “China is Key to Sri Lanka’s Progress: Survey”, *South Asian Monitor*, August 18, 2017.  
<http://southasianmonitor.com/2017/08/18/china-key-sri-lankas-progress-survey/>

With regard to the Tamil issue, India has a history of interference in the domestic affairs of Sri Lanka. China, on the contrary, hardly interfered in its internal issues, but has rather supported its official stance at international forums. For instance, Beijing voted in favor of Sri Lanka in the United Nations Human Rights Council, whereas India voted against it. In fact, India's relations with the South Asian countries are marred by the baggage of history and the element of Hindu Nationalism (*Hindutva*) in its foreign policy. These two factors have been the driving force behind the South Asian countries' opting for 'China Card' to ward off Indian meddling in their affairs. With this deal, China has entered the domain which India long considered as within its sphere of influence and sought to push back against China's maritime expanding influence.<sup>5</sup>

The Chinese port deal with Sri Lanka is indeed a major setback to the Indian hegemony in the region and its influence in the Indian Ocean.

The most significant impact of this deal is that it has fueled the already intense regional power politics between China and India. The two countries have locked horns at Doklam plateau lying between Bhutan and Tibet, which is the longest ever standoff between Beijing and Delhi. The Chinese Belt and Road Initiative (BRI) has also been facing continued opposition from the Indian side. The port deal is likely to heighten India's threat perception. In the backdrop of the deal, India's expression of keen interest in running the Mattala Rajapaksa International Airport near Hambantota,<sup>6</sup> does not appear to be a coincidence. Indeed, India is adamant to adopt an aggressive posture vis-à-vis China. These developments will cast a gloomy shadow on the power politics of the South Asian region, particularly on Pakistan owing to its deep partnership with China and animosity with India.

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<sup>5</sup> Sanjeev Miglani, "Allaying Indian Concerns Sri Lanka Limits China's Role to Commercial Operations at Hambantota Port", *Economic Times*, July 25, 2017.  
<http://economictimes.indiatimes.com/news/defence/allaying-indian-concerns-sri-lanka-limits-chinas-role-to-commercial-operations-at-hambantota-port/articleshow/59753952.cms>

<sup>6</sup> Meera Srinivasan, "India Keen to Run Sri Lanka Airport", *The Hindu*, August 11, 2017.  
<http://www.thehindu.com/news/international/india-keen-to-run-sri-lanka-airport/article19476394.ece>