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Issue Brief

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India-Sri Lanka Relations: Trying to Counter the Middle Kingdom

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India and Sri Lanka share common historical ties, more so because of geographical proximity. They have always enjoyed close political and economic relations. However, this close relationship has recently been strained a little, as Sri Lanka's growing friendship with China has not set well with New Delhi, who feels its influence in the region is waning as China encroaches on all sides with major development projects in Bangladesh, Myanmar, Maldives, Nepal and Pakistan, particularly in Sri Lanka.



A pact on economic cooperation was signed between Sri Lankan Prime Minister Ranil Wickremesinghe and his host Prime Minister Narendra Modi on April 26, 2017. The pact outlines the agenda of economic cooperation in foreseeable future and both nations vowed to ensure successful implementation of the agenda. ¹This move by India was aimed at warding off increasing Chinese influence in the South Asian region.

Since he first came into office, Indian Prime Minister Narendra Modi started working on the 'neighborhood first' approach. However, there have been subsequent hiccups in the 'neighborhood first' policy which includes a deterioration of ties with Pakistan and strains in India-Nepal ties. The new formula includes an element of strong economic cooperation, for instance, an extension of a \$4.5 billion line of credit for development of infrastructure and other projects in Bangladesh and another \$500 million for defense hardware purchases by Dhaka during the April 7-9, 2017 visit of Prime Minister Sheikh Hasina to India. ²

On Sri Lanka's priority list, there is a proposal to develop the Trincomalee oil storage tank farm, besides discussing the Economic and Technology Cooperation Agreement (ETCA) that the Sri Lankan government

¹ <http://www.thehindubusinessline.com/economy/policy/india-sri-lanka-ink-pact-for-economic-cooperation/article9665788.ece>

² <https://www.pressreader.com/india/mint-st/20170427/282041917023305>

is keen to sign with India.³ Under the terms of the 1987 India-Sri Lanka accord, the two countries have to jointly develop the 99 oil tanks in Trincomalee, a relic from the British colonial times. At present, Indian Oil Corp. Ltd. unit Lanka IOC runs 15 out of the 99 storage tanks.⁴ The proposed joint venture pertains to the remaining 84 with Sri Lanka proposing to retain 10 of those for use by the Ceylon Petroleum Corp.⁵

During his visit to Sri Lanka in March 2015, Modi had said, the project to develop the 84 tanks in Trincomalee would help the coastal town become a regional petroleum hub.⁶ Also, development of this port will help India to keep a closer eye on Chinese activities in Hambantota port which is now developed and under the control of China.

For many years, there was a very strong demand for Sri Lanka to add additional international aviation capacity. Air traffic through Colombo was getting too heavy, and the country either had to add an additional runway there or build or expand another airport elsewhere. At a cost of \$209 million most of which is coming from China, Sri Lanka chose the latter option, building Mattala International far out in southern Hambantota district, a 250 kilometer drive from Colombo.

This airport started out as a key part of an ambitious plan by Sri Lanka's former President Mahinda Rajapaksa to transform his extremely rural hometown region into Sri Lanka's number two metropolis. In addition to the airport, there would be a \$1.4 billion deep sea port, a large industrial and export processing zone, an exhibition center, a large cricket stadium, and a hotel and leisure area that would be connected together by some of the country's best highways. The idea was that all of these large projects would rise up together and support each other. It was an all or nothing wager placed on creating an entirely new economy in the middle of the jungle.

An Indian company has now emerged with a bold plan for taking over Sri Lanka's struggling Mattala Rajapaksa International Airport (MRIA) about 40 km from the southern town of Hambantota, where China has a majority stake in a strategic port it built.⁷

³ <http://dailynht.com/story/29735>

⁴ Ibid.

⁵ <http://www.livemint.com/Politics/R5pSpydAzrl4x9LcOIKu0N/India-renews-Sri-Lanka-ties-to-counter-China-influence-in-So.html>

⁶ Ibid.

⁷ <http://www.thehindu.com/todays-paper/tp-international/india-keen-to-run-sri-lanka-airport/article19477500.ece>

The Sri Lankan government cleared Civil Aviation Minister Nimal Siripala de Silva's request in the last week of August 2017 for a committee to study the Indian government's proposal. India proposes to "operate, manage, maintain and develop" the airport through a joint venture, holding 70% of the equity for 40 years. According to the Minister's Cabinet paper, India is to invest \$205 million in the venture, while Sri Lanka would pitch in the balance \$88 million.⁸

The development comes less than a fortnight after Sri Lanka signed a \$1.1 billion deal with China, which saw a 70% share of Sri Lanka's Hambantota deep sea port being sold to China for 99 years. Additionally, Colombo also roped in China to help develop an industrial zone in the adjoining land, spanning some 15,000 acres.⁹ The port and airport are within a half hour drive of one another, and are part of the same conurbation of development. When viewed in this light, it appears as if the timing of India's offer may not have been a coincidence, and could be another move by India intended to counter China's growing presence in the South Asian region

However, if this was the case, it would fall right within Xi Jinping's rhetoric about the Belt and Road Initiative (BRI) and the "community of common destiny" that it is intended to provide the impetus for.

It is common to view the BRI as a Chinese expansionist strategy, with China vying to take control of as many of the world's emerging infrastructure assets as possible. But this isn't necessarily the case. China gains power through the BRI not by being omnipotent and competitive, but through what are called "mutually beneficial partnerships" with other countries. Ultimately, China controlling the Hambantota deep sea port and India running the Mattala airport would be an ideal Belt and Road arrangement.

Since the start of the Belt Road Initiative (BRI) in 2013, China has been trying to get India on board, something which is fundamental to the initiative's success in South Asia. On numerous occasions, China has invited India to collaborate in Sri Lanka; trying to arrange Indian participation in the Colombo Port City project, as well as at the impending industrial zone at Hambantota. Despite India's very public opposition to China's BRI, they are very much wrapped up in the endeavour and moving in to take over the Mattala airport would actually be another major step in this direction.

⁸ <http://lk.worldpronews.com/77810/6431/138/5d43cd275cbd2a7b69cab7d089414c3dea8c0faf>

⁹ <https://www.cnbc.com/.../reuters-america-exclusive-sri-lankas-cabinet-clears-port-deal>