

# Tightrope Balancing in a Time of Rising Great Power Competition: An Assessment of Sri Lanka's Relations with India and China

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## ABSTRACT

China's economic resurgence augurs the possibility of a recalibration in the global balance of power. Many contend that this process is already underway in East Asia – specifically in relation to the South China Sea. In other parts of the world, China's growing footprint is discernible through infrastructure projects, under Beijing's Belt and Road initiative. Does China leverage its economic power to realise its interests by forcing smaller nations to accept conditions and agreements which are not in the latter's interests? This paper examines whether evidence to this effect is visible through a case study of Sri Lanka. The island's geographic

location – astride the Indian Ocean Sea Lanes of Communication – continues to draw the attention of regional and extra-regional powers. Sri Lanka's constraints in size and poor pace of economic development also grants leeway for India (the regional hegemon) and China to leverage bilateral ties in their interest. Is there evidence to suggest that China has utilised port infrastructure to realise its national interests at the expense of Sri Lanka? Or, has Sri Lanka managed to thread a fine line between the two Asian powers: the neighbouring regional hegemon – India; and the resurgent great power – China? Does the truth lie somewhere in between? This article delves into these questions by examining the approaches and stances

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which Sri Lanka has adopted towards both nations, particularly during President Gotabaya Rajapakse's government, from 2019 leading up to the end of 2021. By doing so, it aims to shed light on how Sri Lanka handled bilateral ties with both Asian powers as well as the degree of Sino-Indian competition visible within the island's port infrastructure landscape. It concludes that the decisions reached with regard to port infrastructure projects represent a mixed picture. A key finding is the ability of domestic interest groups to shape Sri Lanka's foreign policy during this period, which has significantly dented the island's ties with other regional allies such as Japan.

**Keywords:** Sri Lanka; Foreign Policy; Small States; India; China; South Asia.

## **El equilibrio en la cuerda floja en una época de competencia entre súper potencias emergentes: una evaluación de las relaciones de Sri Lanka con India y China**

### **RESUMEN**

El resurgimiento económico de China augura la posibilidad de una recalibración en el equilibrio de poder global. Muchos sostienen que este proceso ya está en marcha en el este de Asia, específicamente en relación con el mar de China Meridional. En otras partes del mundo, la creciente huella de China se puede observar a través de proyectos de infraestructura, bajo

la iniciativa de la franja y la ruta de Beijing. ¿Aprovecha China su poder económico para satisfacer sus intereses al obligar a las naciones más pequeñas a aceptar condiciones y acuerdos que no son de su interés? Este artículo examina si la evidencia es visible a través de un estudio de caso de Sri Lanka. La ubicación geográfica de la isla, justo sobre las vías de comunicación marítimas del océano Índico, continúa atrayendo la atención de los poderes regionales y extrarregionales. Las limitaciones de tamaño de Sri Lanka y el bajo ritmo de desarrollo económico también otorgan un margen de maniobra a India (la hegemonía regional) y China para utilizar los lazos bilaterales para sus intereses. ¿Hay evidencia que sugiera que China ha utilizado la infraestructura portuaria para satisfacer sus intereses nacionales a expensas de Sri Lanka? ¿O Sri Lanka ha logrado trazar una fina línea entre las dos potencias asiáticas: el vecino hegemón, India, y la gran potencia emergente, China? ¿La verdad se encuentra en algún punto intermedio? Este artículo profundiza en estas preguntas al examinar los enfoques y las posturas que Sri Lanka ha adoptado hacia ambas naciones, particularmente durante el gobierno del presidente Gotabaya Rajapakse desde 2019 hasta fines de 2021. Al hacerlo, pretende dar luces sobre cómo Sri Lanka ha manejado los lazos bilaterales con ambas potencias asiáticas, así como el grado de competencia sino-india visible dentro de la infraestructura portuaria de la isla. Concluye que las decisiones tomadas con respecto a los proyectos de infraestructura portuaria representan un panorama mixto. Un hallazgo clave es la capacidad de los grupos de

interés nacionales para dar forma a la política exterior de Sri Lanka durante este periodo, lo que ha afectado significativamente los lazos de la isla con otros aliados regionales como Japón.

**Palabras clave:** Sri Lanka; política exterior; pequeños Estados; India; China; Asia del sur.

## INTRODUCTION

Graham Allison, in his provocative text ‘*Destined for War*’ argues that President Xi’s attempt to make China ‘great again’ involves a return to the predominant position in Asia. In his view, this is a state of being which persisted until the intrusion of Western colonial nations. This aspiration involves reclaiming the ‘historic sphere of influence’ in its Asian neighbourhood and ensuring that other Asian nations give the *Middle Kingdom* the deference it expects. Indeed, writing as far back as the 1960’s, Fairbank’s (1969) believed that Beijing (in future) will use its economic and military power to *orchestrate* a harmonious co-existence in its neighbourhood *under its* suzerainty.

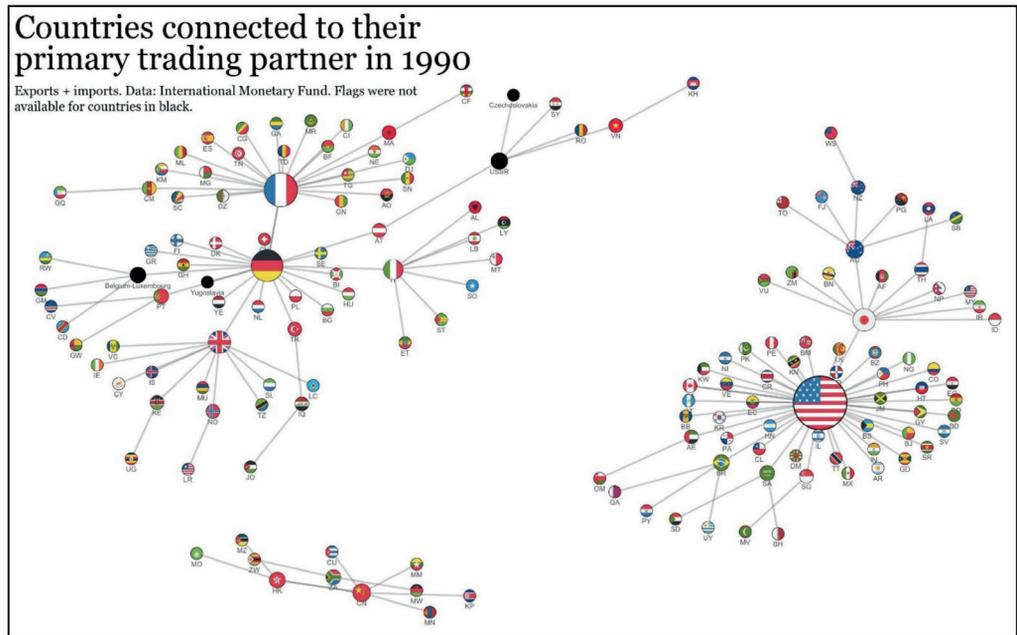
Kissinger’s (2014) widely read book ‘*World Order*’ eloquently points out that our international order faces two tendencies challenging its consistency: a shift in the balance of power, and a redefinition of legitimacy based on the values underlying its arrangements and regimes. In the case of China’s resurgence since the 1980s, Kissinger reckons that its economic power is rapidly inducing a shift in the international balance of power – beginning from East Asia. Foot and Walter (2011) and Zakaria (2008) appear to delineate a similar position as well. To quote the latter, “rising powers (such

as China and India) appear to be...entering the Western order but doing so on their own terms – thus reshaping the system itself” (Zakaria, 2008, p. 36). In a stimulating book titled ‘*China’s Quest for Global Order: From Peaceful Rise to Harmonious World*’, Delliós and Ferguson (2012) add that China intends to wield its economic power to cultivate a harmonious world order based on *its* role as a legitimate and cultured imperial nation. In that sense, Beijing does not see itself as a revisionist state but instead as simply deploying its economic leverage to reclaim the *dominant power* position in Asia and the world. The Belt and Road Initiative (BRI), China’s trillion-dollar transcontinental development program, can be viewed as the centrepiece of this strategy.

Wang Jisi (2012) is believed to have been one of the first to articulate the necessity of developing a grand strategy to assume leadership in Asia. Nevertheless, as claimed by Jisi (2012), attaining the top tier position in the international power hierarchy should not be achieved through the deployment of military force. Instead, Beijing’s overriding priorities, as Jacques (2009) also points out, is to ensure sustained economic development and shape the world in accordance with its interests. According to some, Asia is already becoming a Sinocentric world order as evident from the fact that China is the largest trading partner for many Asian nations. This is manifestly evident by appraising images 1 and 2 below.

In that sense, and unlike Western colonial powers, China appears to ascend the international hierarchical order through diplomacy and economic hard power. Gilpin (1981) reminds us that a rising power its “tempted to

**Figure 1.**  
**Countries connected to their primary trading partner in 1990**



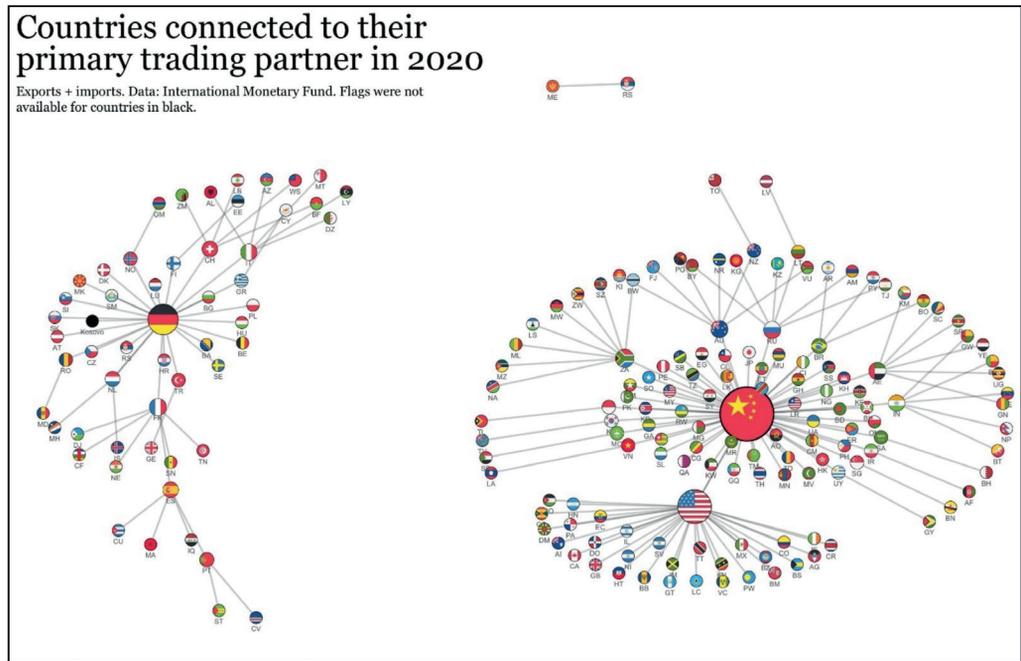
Source: <https://www.visualcapitalist.com/wp-content/uploads/2022/02/trading-partners-1990.html>

try to increase its control over its environment. In order to increase its own security, it will try to expand its political, economic and territorial control...over the international system” (p. 94). Viewed in this light, China’s BRI and other economic strategies may determine the international balance of power in the coming decades (Bremmer, 2012).

Acharya (2014) is of the view that “the only Asian power with a potential for undertaking significant territorial expansion, China, is checked not only by the US but also by Japan and India” (p.19). However, this is not reflective of developments in the South China Sea (SCS) where Beijing has – in contravention to

international law – acquired maritime space contested by other Southeast Asian claimant states. ASEAN’s attempt to condemn China’s action failed as a consequence of Beijing’s ability to utilise its economic leverage to wean Cambodia away from a unified stance. Despite Freedom of Navigation operations by the United States and military exercises by other nations, they have – by and large – been onlookers to Beijing’s maritime expansion and acquisition of territories in the SCS. Moreover, it is also important to bear in mind that “dominant states bolster friendly leaders by providing them resources that these leaders can use domestically” (McCormack, 2019, p. 120)

**Figure 2.**  
**Countries connected to their primary trading partner in 2020**



Source: <https://www.visualcapitalist.com/wp-content/uploads/2022/02/2020-trading-partners.html>

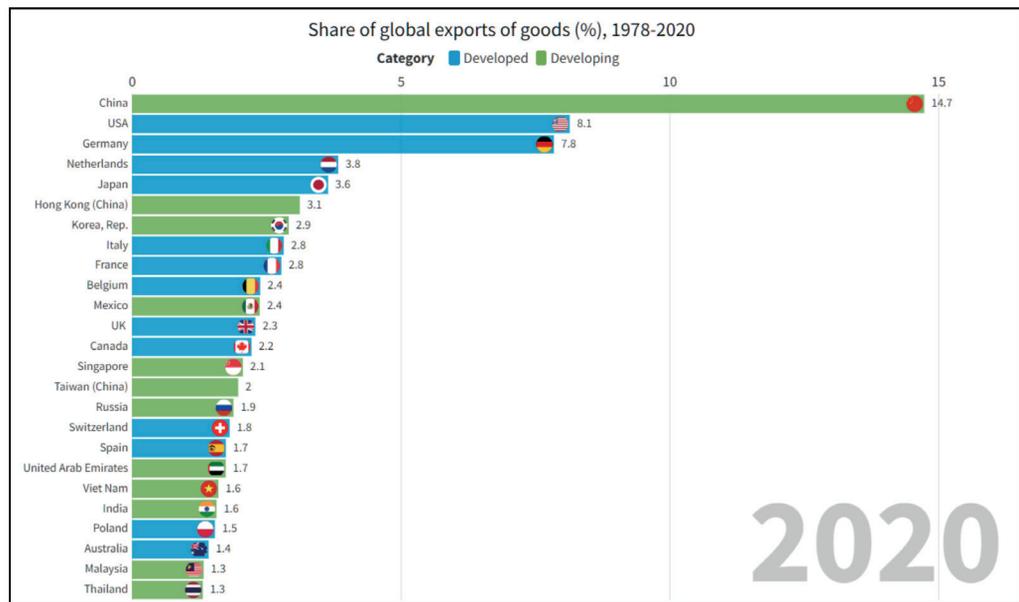
such as loans and economic grants. Evidence points to the Cambodian leader's posture, in the wake of Chinese investments, and is also manifestly evident in the context of Sri Lanka during President Mahinda Rajapakse's tenure (De Silva, 2018a).

Jacques (2009) adds that China's shrewd diplomacy has ensured that New Delhi is constantly on the back foot in South Asia; unable to proactively take measures to inhibit Beijing's growing footprint in the region. Competition between India and China is visible across several domains. China, according to a 2022 world military strength report, ranks in the 3<sup>rd</sup>

position and is followed by India slotting in as number 4 (Global firepower, 2022).

In terms of global trade, as depicted above, China outranks India by a sizeable margin. As per statistics for 2020, China is the world's largest exporter (2.59 trillion USD) and the world's second largest importer of commodities at 2.05 trillion USD (Trend Economy, 2021). Zeroing in on Sri Lanka – an island in the Indian Ocean – merits a few interesting observations. As per 2020 statistics, China is the leading import source for 2020 with a share of 22% of Sri Lanka's total imports, followed closely by India with a share of

**Figure 3.**  
**Share of global exports as a percentage of state contribution in 2020**



Source: <https://unctad.org/topic/trade-analysis/chart-10-may-2021>

19.2%. However, in terms of exports from Sri Lanka, China only accounts for 2.35% of total exports from the island whereas India imports 6.11% of Sri Lanka's total commodity exports (Trend Economy, 2021). In other words, maintaining amicable relations with India and China is imperative for the continued growth of Sri Lanka's foreign trade.

Long standing territorial disputes between India and China (including the 1962 border war and more recent clashes in Galwan and Dokhlam) are indicative of the threat perception between the two Asian nations and their tendency to augment tensions beyond the confines of competition towards conflict

(Ogden, 2022). As a result of China's growing footprint in South Asia (Huang, 2018; Khurana, 2008), India is moving closer towards the United States and other Quadrilateral Security Dialogue members (Australia and Japan).

While the impact of China's resurgence on the geopolitical and geoeconomic dynamics of East Asia has been well documented, the way in which it has impacted South Asia is relatively understudied. Consequently, this research examines how Sri Lanka – an Indian Ocean Island with significant trade and political ties with Beijing and New Delhi – manages relations with both parties. This case study is of particular significance because it is not only

a theatre for Indo-China competition, but it also reflects the agency that can be utilised by small states to further national interests when great powers attempt to woo small states towards their orbit through port infrastructure development projects.

The core objective of this paper is to explore how great power competition, between India and China, is manifested by looking into port infrastructure development in Sri Lanka. By doing so, the researcher intends to uncover whether Sri Lanka's attempt at tightrope balancing is protecting and furthering Sri Lanka's core national interests of economic development; and ensuring the protection of sovereignty and autonomy. The next section distinguishes tightrope balancing from other mainstream foreign policy approaches. The paper then discusses why Sri Lanka has garnered the interest of India and China. This is followed by an analytical exposition of how India and China played a significant role in port infrastructure projects between 2019 and 2021. The final sections briefly outline other forms of engagement during this period of time. The conclusion evaluates whether Sri Lanka was tightrope balancing to realise its national interests through port infrastructure projects.

#### **TIGHTROPE BALANCING, BALANCING, BANDWAGONING AND HEDGING**

Mainstream International Relations theories outline three distinct foreign policy approaches which states adopt as a consequence of structural conditions: Balancing, Bandwagoning and Hedging (De Silva, 2015). Bandwagoning

is visible when a state initiates an alignment with a more powerful and aggressive state in the hope that the latter would not violate the national interests of the small state (Elman, 1995, p. 177; Walt, 1990, p. 17). Balancing, a foreign policy approach on the opposite spectrum, involves aligning with other states against the more threatening state (Rais, 1993; Schweller, 1994, p. 74). However, both foreign policy approaches envisage the state responding to a risk to its national interests by a threatening great power. Indian and Chinese activities in Sri Lanka can potentially be detrimental to its national interests, as the island also benefits from its bilateral relationship with both parties. Nevertheless, it does not wish to adopt a policy of balancing or bandwagoning in fear of alienating either great power.

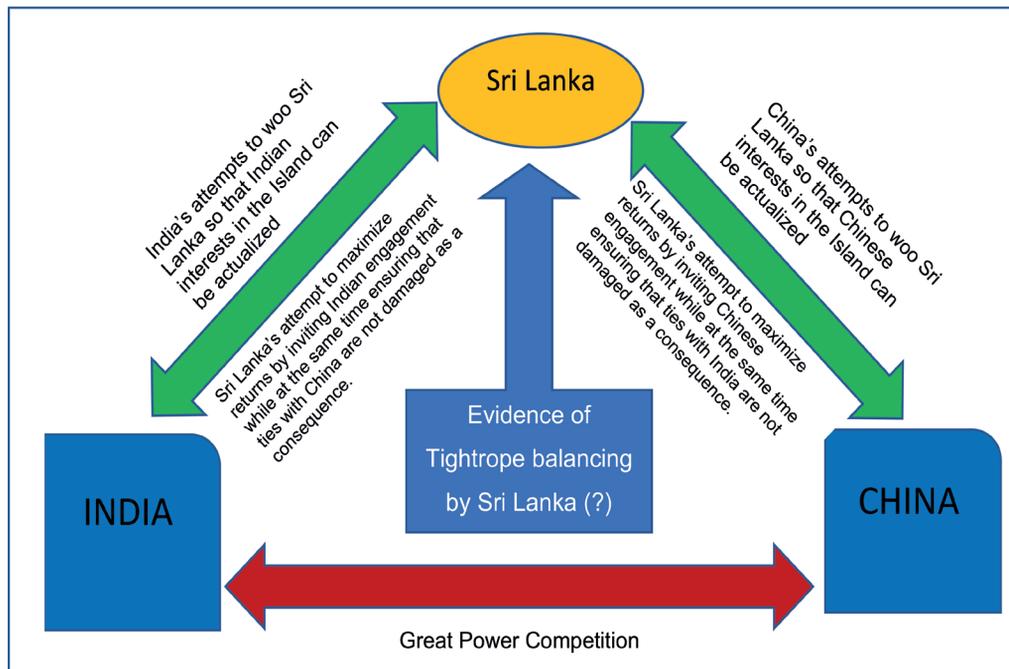
Hedging first emerged as a concept in financial risk management literature. According to De Silva (2020, p. 95) it explains "the risk contingency measure of investing in more than one party to offset potential loss. The idiom 'hedging one's bets' describes the action of protecting one's investment by supporting more than one possible result or both sides in a competition". For example, visualise an investor opting to invest in company A. To offset the possibility that company A's stock value tumbles in the short run s/he might invest a smaller value of money in Company B and/or Company C. In so doing, the investor hedges – ensuring that his returns in the short run will not be zero by diversifying his/her revenue streams. IR scholarship amended this parsimonious definition in several ways.

Hedging, as articulated by International Relations (IR) scholars, is a foreign policy

approach generally adopted by small South-east Asian states (Dar, 2021, p. 255). For the purpose of this article, the author defines it as a risk management strategy which involves maintaining favourable politico-economic ties with the status quo (regional hegemon-India) and rising power (China). At the same time, it involves adopting the contingency measure of enhancing security ties with the status quo power to offset potential threats from the rising great power. Thereby, it preserves its core national interests – i.e., it protects territorial security and autonomy and ensures continued economic development. Sri Lanka does not necessarily fit the parameters of hedging. The

island has not sought to enhance security ties with India or China through a formal military agreement or adopted a contingency measure in the event bilateral ties with India or China sour. Consequently, the established lexicon of International Relations concepts fails to explain Sri Lanka's policy towards India and China. Therefore, this article introduces a novel conceptual category: tightrope balancing. In this paper, tightrope balancing implies that a nation is attempting to have strong ties with two great powers who are engaged in a geopolitical competition. This trilateral relationship and tightrope balancing is depicted visually below:

**Figure 4.**  
**Depiction of Tightrope balancing**



Source: Author.

## **SRI LANKA AS A THEATRE OF GEOSTRATEGIC COMPETITION**

Sri Lanka, an island positioned just 55 km under India, consists of a total area of 65,610 sq km with a population slightly below 22 million. The island received independence in 1948 and was identified as 'Ceylon' until 1972. For a significant portion of the island's post-independence years, it underwent an internationalised internal armed conflict pitting a separatist terrorist group – the Liberation Tigers of Tamil Eelam (LTTE) – against the Sri Lankan government. The conflict, which spanned almost 3 decades, ended in 2009 with the military defeat of the LTTE. The President at the time, Mahinda Rajapakse, opted to stimulate rapid economic development by initiating infrastructure projects in the island. Corruption, coupled with the commencement of several 'white elephant' infrastructure projects financed by loans from China and other parties, placed a significant debt burden on the island's coffers. Although his administration was replaced in 2015 by a coalition government which pledged to uncover alleged embezzled funds, the new government was hampered by factionalism and internal strife (De Silva, 2018b).

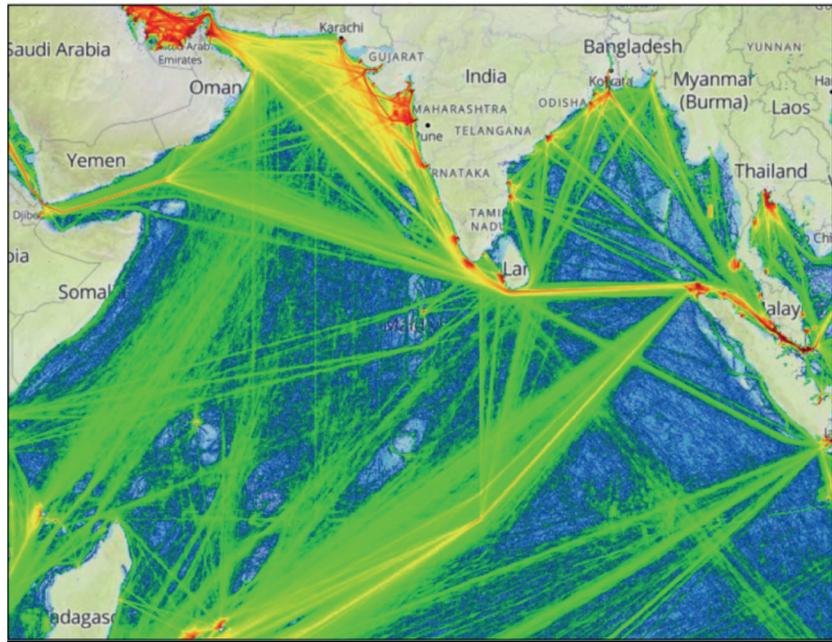
The Coalition government's dysfunction, together with a lax internal security stance, led to a series of ISIS inspired suicide bombings in April 2019. The economic impact from a global Covid-19 induced lockdown negatively affected Sri Lanka's tourism industry. A downturn in the inflow of remittances from Sri Lankan workers abroad also had an effect on its economy. Gotabaya Rajapakse was elected

in 2019 on the promise that his administration would guarantee internal security and engender a revival in Sri Lanka's flailing economy. In contrast to his political pledges, a combination of inertia towards Sri Lanka's burgeoning debt burden, coupled with a string of ill-considered policies (including a hasty move to ban the importation of chemical fertiliser in a country dependent on rice cultivation for domestic consumption), forced his administration to declare bankruptcy in April 2022 (De Silva, 2022). In the face of mounting protests triggered by shortages in fuel and other daily essentials, Prime Minister Mahinda Rajapakse, the brother of President Gotabaya Rajapakse, resigned giving way for Ranil Wickremasinghe to take office.

Sri Lanka historically has maintained close ties with India and China. As the island's ancient ties with China (De Silva, 2019) and India (Bhasin and Hyles, 2001) have already been documented in detail, we begin our analysis by exploring why Sri Lanka is a theatre of choice for geostrategic competition between India and China in the present context. The first, and possibly most important, factor is Sri Lanka's location in the Indian Ocean region (see figures 5 and 6).

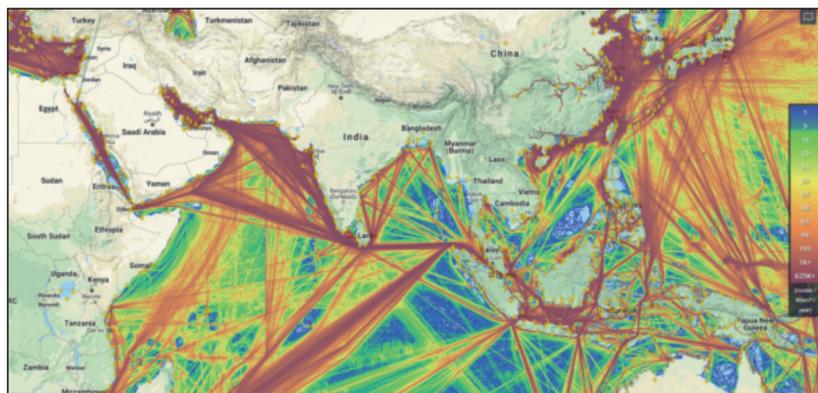
As indicated by images 4 and 5, Sri Lanka's geostrategic position is one of its main assets. More than 80% of the world's oil shipments traverse through the Indian Ocean and Sri Lanka lies at the fulcrum of East-West Maritime trade (Davis & Balls, 2019, p. 1). A significant quantity of China's export and import trade crosses the Indian Ocean, in particular, alongside Sri Lanka's southwest coast. Sri Lanka's location is also of import to India.

**Figure 5.**  
**Maritime Sea Lanes of Communication in the Indian Ocean**



Source : <https://www.adb.org/sites/default/files/project-documents/50184/50184-001-tacr-en.pdf>

**Figure 6.**  
**Maritime Traffic in the Indian Ocean**



Source : <https://ciltinternational.org/news/the-strength-of-sri-lankan-shipping/>

To quote Shivshankar Menon (2016, para. 7), a retired Indian diplomat, “More than 90 percent of our [India’s] foreign trade and most of our energy supplies came along the sea-lanes that Sri Lanka sits astride, and we could hardly abandon Sri Lanka to potentially hostile influences. In effect, Sri Lanka is an aircraft carrier parked fourteen miles off the Indian coast.”

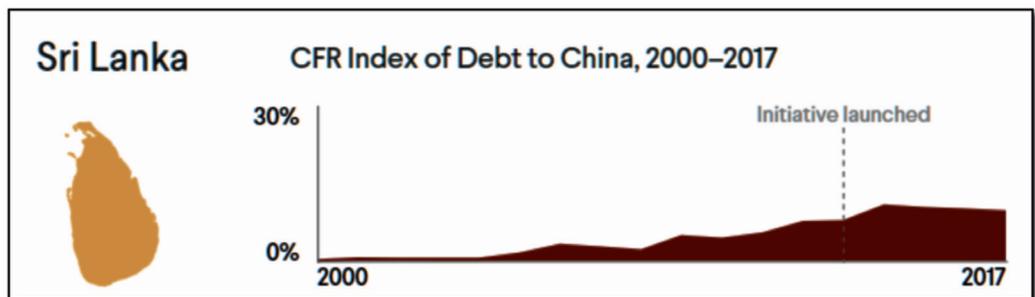
Another factor influencing renewed Indian interest in its southern neighbour is the island’s ties with Beijing. As the diagram below indicates, debt to China has seen a surge since the early 2000s.

Estimations done by the American Enterprise Institute China Global Investment Tracker (2022) put Chinese investments and contracts in Sri Lanka, between 2005 and 2021, at 14.37 billion USD. China has also served as the first-choice lender for several major infrastructure projects including the Hambantota Port project, Colombo-Katunayake Expressway, Mattala International Airport, and the Southern Expressway. As denoted below, Sri Lanka’s mounting debt problem is

a combination of debt to China coupled with considerable domestic debt and commercial borrowings through International Sovereign Bonds (ISB). Moramudali argues that for “the ISBs issued, Sri Lanka has been paying annual interests ranging from 5.13% to 8.75%; while the interest rate for most project loans were 2% (In the case of most loans obtained from [the] World Bank and Japan, the interest rate was below 1%, but both lenders reduced providing such loans to Sri Lanka as the country upgraded to middle income status).” In other words, unsustainable debts through ISB, domestic borrowing and loans from foreign lenders collectively accounted for Sri Lanka’s debt difficulties.

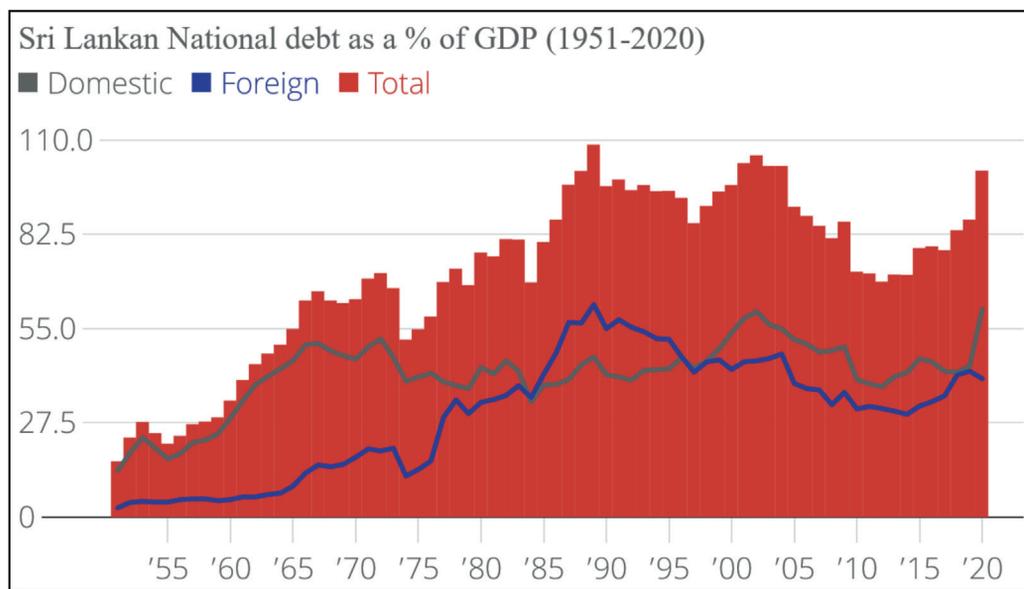
Sri Lanka’s poor pace of economic development, limitations in the island’s ability to acquire concessional financing coupled with corruption and mismanagement contributed to the island’s economic default in April 2022. Sri Lanka’s economic vulnerability provides an attractive ground for both China and India to shape its foreign policy to their preference. In

**Figure 7.**  
Council on Foreign Relations, Index of Sri Lanka’s Debt to China from 2000 to 2017



Source: <https://www.cfr.org/article/belt-and-road-tracker>

**Figure 8.**  
**Sri Lankan National Debt as a percentage of GDP (1951-2020)**



Source: <https://longform.watchdog.team/observations/the-sri-lankan-foreign-debt-problem>

other words, Sri Lanka's economic crisis and dependence on the goodwill of both nations as it enters debt restructuring, makes the island an ideal theatre for both Asian giants to rope in the island to their specific geopolitical sphere of influence.

Finally, the island has, for a large part since independence, adopted a welcoming approach to China and India. Unlike Bhutan – another South Asian nation – which does not maintain ties with China, Sri Lanka has strong trade and diplomatic relations with New Delhi and Beijing. Nevertheless, there have been low points in both fronts. For instance, some Sri Lankans opposed the influx of India's Peacekeeping forces to disarm the LTTE and

minimise hostilities as well as protested some Chinese development activities owing to the evictions of villagers (BBC, 2017). Even so, relations have generally been stable and warm.

## **GEOSTRATEGIC COMPETITION IN SRI LANKA**

### **Ports and Foreign Players**

Sri Lanka's Hambantota Port located in the southern edge of the island has been, since its inception, the posterchild for China's alleged 'debt-trap diplomacy'. The port was funded chiefly through loans from the Export-Import Bank of China. Construction was carried out by "China Harbour Engineering Company

(CHEC) and another Chinese state-owned firm, Sinohydro Corporation” (Majueran, 2021). The lack of expected revenue from the project placed significant strains on Sri Lanka owing to the interest and loan repayments it needed to make to foreign creditors, particularly through ISB’s. The low rate of return from the project, coupled with the high maintenance cost and burgeoning debt, led the Sri Lankan government to initiate talks with China Merchants Ports Holdings Company (CMPort) to lease the port for a period of 99 years.

On July 29, 2017, Sri Lanka’s Port Authority (SLPA) and CMPort arrived at a consensus to lease the port for 99 years in reply to an investment of 1.12 billion USD (China Merchants Ports Holdings Company Limited, n.a). Two companies were created subsequent to this: Hambantota International Port Group (HIPG) and Hambantota International Port Services (HIPS). Under the agreement,

CMPort holds onto 85% of the shares of HIPG. 58% of the shares of HIPS is controlled by HIPG with the remaining shares held by Sri Lanka (China Merchants Port Holdings Company Limited, n.a). The 1.12 billion USD paid by CMPort was utilised by Sri Lanka to pay back foreign creditors (Moramudali, 2020).

According to the agreement:

- The CMPort shall pay to SLPA the sum of 973.658 million USD (equivalent to approximately HKD7,594.53 million) for the acquisition of the 85% issued share capital of HIPG (and HIPG shall use a portion of such amount to acquire 58% issued share capital of HIPS) in three tranches.
- Upon the termination of the Concession Agreement at the expiry of the term of 99 years from the Concession Agreement Effective Date, SLPA shall have the obligation to purchase all the shares of HIPG and HIPS held by their shareholders (other than those held by Sri Lanka Ports Authority - SLPA or Government of Sri Lanka - GOSL). The shareholders of HIPG and HIPS are obliged to transfer such shares to SLPA and GOSL at the price of USD1 (China Merchants Port Holdings Company Limited, 2017).
- No commercial vessel can berth at the Hambantota port without the approval of the Harbor Master of SLPA and the Sri Lanka Navy (Hambantota International Port Group, n.a).
- No naval vessel can berth at the Hambantota port without the approval of the Ministry of Defence (MOD), the

**Figure 9.**

**Sri Lanka’s Hambantota Port and  
Sea Lanes of Communication**



Source: <http://www.hipg.lk/>

Ministry of Foreign Affairs and the SLPA (Hambantota International Port Group, n.a).

Concerns voiced over the possibility of the dual use of the Hambantota Port have previously been allayed by Sri Lanka's Prime Minister (Wickremasinghe, 2019). However, they have surfaced repeatedly in Western *and Indian* media, particularly after China's acquisition of a military base in Djibouti. Moreover, observations that China coerced Sri Lanka to hand over the port is also doubtful as the port was first offered for lease to India and was rejected (Colombage, 2020). On this basis, it appears that China did not use its economic leverage to tip Sri Lanka to lease the Hambantota Port. In contrast, the fact

1. that a port which was failing to generate expected revenue is currently not solely maintained by Sri Lankan coffers;
2. the agreement precludes the arrival of any Chinese military vessel without the explicit permission of the Sri Lanka Ports Authority; and
3. that Sri Lanka *offered* the port to CMPort instead of being coerced to do so, seems to suggest that the island may have got the better hand in the negotiation.

Sri Lanka's decision to lease the port, therefore, appears to be reflective of tightrope balancing. Although it did initially raise alarm bells among Indian security circles, despite the length of the lease (99 years), the efforts taken by Sri Lanka to protect its interests, assuage Indian concerns and gain the upper hand in

the deal – i.e., leasing a port which was not gaining any revenue – is emblematic of tightrope balancing.

Sri Lanka's busiest port – the Colombo Port – serves as an example of how major power jockeying to acquire assets can be overturned by domestic interest groups. In 2019, Sri Lanka entered into a Memorandum of Cooperation (MOC) with India and Japan concerning the East Container Terminal of the Colombo Port (The Indian Express, 2021). Colombo port trade unions opposed the deal and claimed that the proposed deal, as per the MOC, would give India's Adani Group the ability to jointly run the ports operations with Japan. Although the President was initially reluctant to overturn the MOC, continued protests by the port workers influenced his administration to overturn what had been agreed by his predecessor's regime. Japan and India voiced their displeasure when Rajapakse reneged on the deal and the latter entered into talks to then operate the West Container Terminal (Business Standard, 2021). The President did not face substantial pressure from trade union workers on this front. He consequently agreed on a 700 million USD Build-Operate-Transfer Agreement whereby India's Adani Group controls a 51% stake in the West Container Terminal (WCT). The remainder is owned by John Keells Company (34%) and the Sri Lanka Ports Authority (15%).

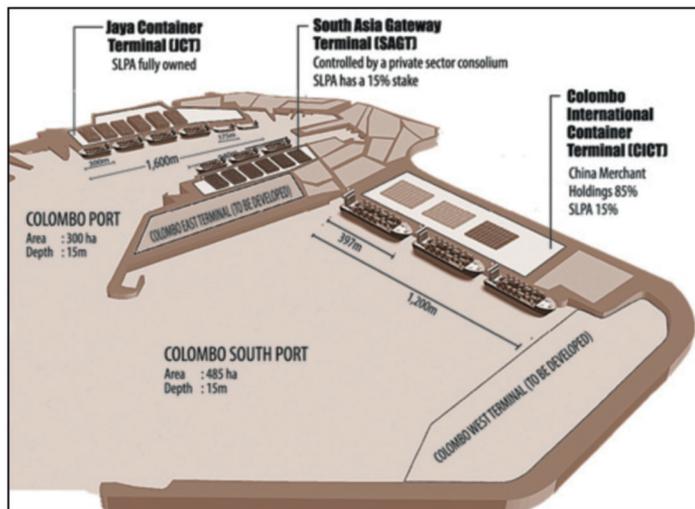
The project to develop the East Container Terminal (ECT) was then clinched by a state-run Chinese firm – The China Harbour Engineering Company. The Port's Trade Union did not oppose this deal on the basis that the Chinese company would be handling

**Figure 10.**  
**Colombo Port terminals**



Source: <https://iesl.lk/SLEN/47/colombo%20fort.php>

**Figure 11.**  
**Port Terminal Ownership structure**



Source: <https://www.sundayobserver.lk/2018/04/22/supplement/vision-colombo-port>

the engineering, procurement, and construction phases instead of operating the terminal which had been included in the MOC with India and Japan (The Indian Express, 2021). At face value, the decision by the port trade union appears to be justified as the operations of the East Container Terminal has not been passed onto a foreign company. Yet, it is difficult to overlook the possibility that China may have influenced the port trade union to oppose the deal with India and Japan and accept the agreement laid out subsequently by the China Harbour Engineering Company. Conclusive evidence to this effect has not yet surfaced although it is still conjectured by some parties (The Maritime Executive, 2021; Abeyagoonasekera, 2021; Balachandran, 2022).

Furthermore, this issue is of particular salience to India because a Chinese nuclear-powered submarine docked at the Colombo International Container Terminal (CICT) in 2014 (Sunday Times, 2014). CMPorts holds an 85% stake of the terminal. Therefore, the fact that India was not informed of the arrival of the submarine led to fears among Indian policy circles of the possibility that China would intensify such deployments in the Colombo Port (Attanayake, 2021). In sum, the negotiations for the WCT and ECT and acts of renegeing on MOC's demonstrate that Sri Lanka is not adequately assessing the short- and long-term implications of entering into agreements with external parties. In addition, evidence points to how the government is considerably influenced by local interest groups.

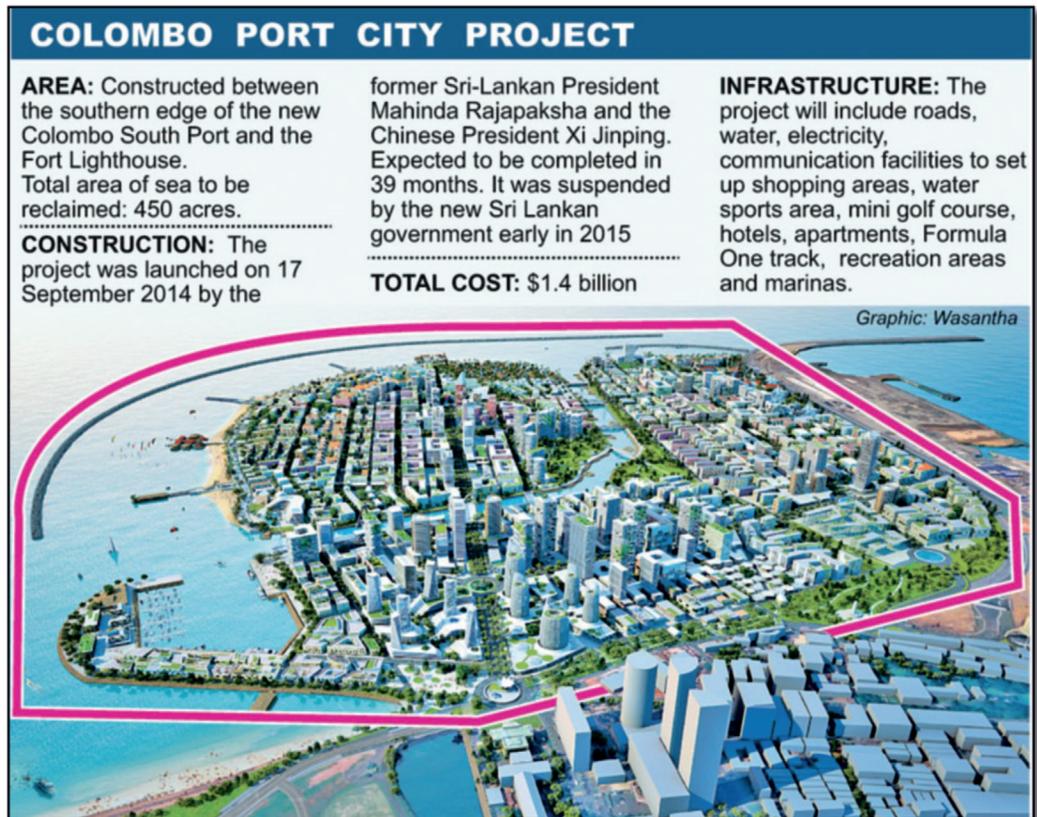
The final agreement (for Adani to develop the WCT and CMPort to develop the ECT) ostensibly looks beneficial for Sri Lanka.

Despite this, it is important to note that the final agreements have not been fully disclosed to the public. In itself, it is difficult to comprehensively judge at this point whether the agreements are in Sri Lanka's national interest or not. What is clear however, is that Japan, a long-time friend of Sri Lanka, was left out of the negotiations when WCT operations were handed over to the Adani Group, which does not bode well for future ties with Tokyo. This is particularly evident from the fact that Japan, one of the primary contributors to Sri Lanka's development through grants and concessional loans in the past, has not provided substantial economic assistance to Sri Lanka after the island defaulted in April 2022 (Kuruwita, 2022).

The Colombo Port City project is another major initiative which has raised concern among foreign security circles. The project, funded by a Chinese company, spans 269 hectares of reclaimed land from the sea. A total of 178 hectares is divided between CHEC Port City Colombo and Sri Lanka. CHEC has been allocated 116 Hectares on a 99-year lease while 62 hectares is controlled by the Sri Lankan Government. Meanwhile, 91 Hectares has been allocated for roads and parks (CHEC Port City Colombo, n.a). Although the former Sirisena government briefly halted the project citing environmental concerns, the possibility that this may negatively affect ties with China influenced the then government to revive the project.

In 2021, the Gotabaya Rajapakse administration established the Colombo Port City Economic Commission which is entrusted with the administration, regulation, and con-

**Figure 12.**  
**Graphical illustration of the final layout of the Colombo Port City**



Source: <https://www.dailynews.lk/2016/03/16/local/all-systems-go-port-city-project>

trol of, all matters connected with businesses and other operations, in and from the “Area of Authority of the Colombo Port City” (Sri Lanka Parliament, 2021). Although the commission has been entrusted with significant powers over the Colombo Port City, as per the act, the majority of members, including the chairperson of the commission, have to be Sri Lankan. Claims therefore, that the Colombo Port City is a Chinese enclave is therefore,

both overblown and misleading. The Port City project and the Hambantota Port lease decision is, consequently, reflective of tightrope balancing. The decision to first engage with India and Japan concerning the ECT of the Colombo Port, and then abruptly renege on the deal harmed bilateral ties with India and Japan. While attempts to ease India’s displeasure was relatively successful by offering the WCT to India’s Adani Group, ties with Japan were

negatively impacted. Moreover, it dented trust and good faith between Sri Lanka and India which is not reflective of tightrope balancing.

In conclusion, Sri Lanka's diffidence and inability to stick with a decision, even if it was made by the previous administration, negatively impacted ties with two of the island's closest foreign partners. The optics of then handing over the same terminal to a Chinese firm may also not have been viewed in a positive light by Japan or India. Even if the agreements reached with CMPort and India prove to be beneficial in the long run, the fact that Sri Lanka vacillated and gave into pressure from domestic interest groups does not augur well for short term ties with Japan.

#### **Other forms of engagement and assistance**

Between 2019 and 2021, Indian and Chinese assistance and engagement with Sri Lanka was primarily in the domains of diplomatic visits and vaccine donations. Consequently, to supplement our analysis of how Sri Lanka managed to tightrope balance by inviting assistance from India and China while attempting to protect its interests and not engender tensions with any one great power, this section examines both domains.

Vaccine donations from China and India significantly contributed to limiting deaths from Covid 19 to a level below 17,000 (as at the end of May 2022) in Sri Lanka. (Health Promotion Bureau, n.a). India donated the first consignment of Covid-19 vaccines in late January 2021 (Ministry of Mass Media, 2021a). This was followed by donations of Sinopharm by China two months later (Ministry

of Mass Media, 2021b). Since then, Sri Lanka has continued to receive donations from New Delhi and Beijing. In addition to the competition between India and China in the domain of vaccine donations, Sri Lanka has also had many visits by Indian and Chinese delegations between 2019 and 2021.

Since his inauguration, President Gotabaya has met with the Minister of Foreign Affairs of the People's Republic of China and Member of the State Council – Wang Yi, Chinese State Councilor, and Defence Minister General – Wei Fenghe, and Yang Jiechi, a Politburo member of the Communist Party of China (CPC). He has also spoken with China's ambassador in Sri Lanka on several occasions. In addition, Xi Jinping has personally wished on his birthday (Presidential Secretariat, 2022). Chinese foreign delegations consider Mahinda Rajapakse their "old friend" and Sri Lanka overtly leaned towards China during Mahinda Rajapakse's tenure (2005-2015).

Immediately after his appointment, Sri Lanka's former Foreign Secretary – Jayanath Colombage – sought to assuage fears of China's naval presence in the Indian Ocean by stating that between "2009 and (August) 2020 more than 525 warships have visited Sri Lanka. Topping the list is India with 110 [...] and way down the list is China with about 40 ships." Colombage went on to declare that "the President has made it very clear, in no uncertain terms, that as far as strategic security considerations go, it is an 'India first' approach. Which means Sri Lanka cannot be, should not be, and will not be a strategic security concern for India" (Ghosh, 2020, para 3). Moreover, President Rajapakse's first overseas visit was

to India. During his tenure he also met with India's National Security Advisor Ajit Doval and the Indian Foreign Minister Jaishankar. Thus, a brief survey of diplomatic visits and vaccine donations showcases how Sri Lanka has engaged in a tightrope balancing act with India and China. To assuage Indian fears that the electoral victory of Gotabaya would augur an inclined foreign policy towards Beijing, as was evident during his brother's presidency from 2005-2015, the President cultivated strong personal rapport with Indian policymakers through his diplomatic visits to New Delhi. To capitalise on Sri Lanka's relationship with Beijing, President Gotabaya utilised diplomatic visits and appointed his brother, Mahinda Rajapakse, as Prime Minister – in the hope of rekindling Sino-Sri Lankan ties which was at its strongest during his tenure. Amicable ties with both nations provide the island with many benefits – the continuation of which is a national interest for Sri Lanka.

Economic crisis assistance is another front where India and China have actively competed in. Acquiring concessional loans from bilateral donors and multilateral agencies became a challenge after the island graduated into middle income status in 1997. This prompted policymakers to borrow from foreign capital markets by issuing International Sovereign Bonds (ISB).

In addition, persistent budget deficits, a reluctance to widen the tax net, and an inability to diversify Sri Lanka's export basket left the island unable to generate sufficient revenue to finance ISB repayments. Consequently, policymakers dipped into Sri Lanka's foreign reserves to meet debt obligations. Compound-

ing these problems was the COVID-19 pandemic, which caused a decrease in remittances from migrant workers and a slowdown in international tourism. The island no longer had sufficient foreign earnings to finance its debt, and by 2022, Sri Lanka's economy was spiralling into default. The result was soaring inflation and regular power outages, coupled with a lack of fuel and basic essentials, which induced many to protest against the president and demand his resignation. (De Silva, 2022a, para 3)

While China has pledged to come to Sri Lanka's assistance amidst the growing economic crisis, it has been India who has responded swiftly with credit lines exceeding 3 billion USD for the cash-strapped nation (Kuruvita, 2022; Shrivastava, 2022). In contrast, China has been relatively slow in extending assistance to the island and briefly opposed Sri Lankan negotiations with the International Monetary Fund to restructure debt (Aneez, 2022).

## CONCLUSION

In sum, our analysis of Sri Lanka's engagement with India and China in the domain of port infrastructure exposes how Sri Lanka has attempted to tightrope balance. In the case of the Port City project and the Hambantota Port lease agreement, our assessment showcased the fact that Sri Lanka has sought to protect its national interests by tightrope balancing. The way in which President Gotabaya dealt with the ECT and WCT however had negative implications on Sri Lanka's ties with India and Japan. While India has been somewhat pacified by offering the WCT to India's Adani Group, the optics of handing over the ECT to

a Chinese company, soon after, may have been negatively perceived in Indian policy circles. In addition, Sri Lanka's ties with Japan also took a negative turn, especially in the wake of the collapse of the ECT MOC with Sri Lanka and the sudden cancellation of the Light Rail Transportation project (Wijedasa, 2022). While engagements with India and China in other domains have been relatively strong, we cannot conclude that Sri Lanka has successfully engaged in a tightrope balancing foreign policy. This is especially in light of the changes in the government's stance on the Colombo Port ECT, as a consequence of the protests of interest groups.

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