



Ca' Foscari  
University  
of Venice

Languages, Economics and Institutions  
of Asia and North Africa  
LM-38

Final Thesis

# **China's overseas landing: has Sri Lanka fallen into a debt-trap?**

**Supervisor**

Ch. Prof. Renzo Cavalieri

**Assistant supervisor**

Ch. Prof. Livio Zannini

**Graduand**

Peiris Liyauruge Nawin Marco

Matriculation Number 877447

**Academic Year**

2020 / 2021



*Vorrei ringraziare innanzitutto il Prof. Renzo Cavaliere, per la sua disponibilità nell'accettarmi come laureando, per i consigli e la pazienza.*

*Ringrazio la mia famiglia, mia madre mio padre e mia sorella: senza il vostro appoggio non sarei mai riuscito ad arrivare a questo traguardo.*

*Ringrazio Erica B. e Giacomo V. per il sostegno nel superare gli ultimi esami di Cinese e per aver trovato il tempo e il modo di supportarmi e sopportarmi anche dopo essersi laureati e aver lasciato Venezia.*

*Ringrazio Nicoletta Ongarato dell'ESU Venezia per la fiducia riposta nel selezionarmi come tutor della residenza Junghans: questo incarico mi è stato di grande aiuto per sostenermi nella mia permanenza a Venezia.*

*Ringrazio inoltre Giulio C. e Michele M. per l'ospitalità, l'amicizia e l'affetto.*

*Infine ringrazio tutti coloro che direttamente o indirettamente mi sono stati vicini e mi hanno aiutato nel mio percorso di studi. Grazie*

<b>Abbreviation</b>	4
<b>Introduction</b>	
Chinese	5
English	7
<b>Chapter 1</b>	
<b>Chinese overseas lending boom</b>	10
1.1 Chinese financial instruments used abroad	14
1.2 Loans	16
1.3 Short-term trade credits	17
1.4 The China Development Bank (CDB)	17
1.5 The Export–Import Bank of China (Chexim)	18
1.6 The AIIB	19
1.7 China as a Donor	23
1.8 Resource-backed Loans	25
1.9 The Venezuela case	28
1.10 Swap Lines	29
<b>Chapter 2</b>	
<b>Sino-Sri Lankan economic relations</b>	33
2.1 Norochcholai Coal Power Plant	39
2.2 The Magampura Mahinda Rajapaksa Deep Sea Port (Hambantota Port)	40
2.3 The Mattala Rajapaksa International Airport	46
2.3.1 The Mattala International Airport location	48
2.3.2 The issue in relation with wildlife	49
2.3.3 Mattala International Airport business model and performance	53
2.3.4 Strategies to convert Mattala International Airport into a profitable venue	56
<b>Final reflection and conclusions</b>	60
<b>Acknowledgements</b>	
<b>Bibliography</b>	
<b>Sitography</b>	
<b>Podcast</b>	
<b>Governmental documents</b>	
<b>Conferences</b>	

**Abbreviation**

ADB The Asian development bank

ADBC Agricultural Development Bank of China

AIIB The Asian Infrastructure Investment Bank

AoA Articles of Agreement

BIA Bandaranaike International Airport

BRI The Belt and Road Initiative

CDB The China Development Bank

CEA Central Environmental Authority

CMI Chiang Mai Initiative

CNY Chinese Yuan

EIA Environmental Impact Assessment

ESF Economic Support Fund

FDI Foreign Direct Investment

GDP Gross domestic product

IDA International Development Association

IMF International Monetary Fund

INR Indian Rupee equals

IOR Indian Ocean region

KRW Korean won

LIC Low-Income Countries

MDB Multilateral Development Bank

MIA Mattala International Airport

MoU Memorandum of Understanding

OECD The Organisation for Economic Co-operation and Development

PBoC People's Bank of China

PLA People's Liberation Army

PRC People's Republic of China

RMB Renminbi

SOE State Owned Enterprise

USD United States Dollar

## 介绍

中国和斯里兰卡的关系从未像近年来这样紧张/激烈。斯里兰卡是一个“经过时间考验的朋友”，它是首批承认中华人民共和国（中国）的国家之一。近年来，北京和可伦坡之间的金融关系的密切程度达到了顶峰，2005年，两国关系以真诚互助、持久[7]友好的全面合作伙伴关系获得了更广泛的关注。

中方的支援已经提供给了更广泛的方面，如设施建设、经济援助、原油勘探、投资和外交支持。与中国的商业关系的加强正影响到斯里兰卡与世界其他国家的关系，特别是与两个最重要的商业伙伴，印度和美国的的关系。在需要协调行动以免中国进一步扩大其在岛上的经济影响力的时刻，令人惊讶的是，特朗普总统领导下的美国政府在2018年决定将经济支持基金（ESF）削减约90%的预算。与美国一样，2016-2017年，印度对其邻国的发展援助也有所下降。外交部的数据显示，2014-2015年印度提供了49.9亿卢比（6610万美元），2015-2016年提供了40.3亿卢比（5335亿美元），但2016-2017年印度只提供了730卢比（967万美元）。

尽管斯里兰卡可能是“珍珠链战略”的主要国家，这是中国在印度洋战略倡议的一部分，称为海上丝绸之路，即[39]一带一路的一部分。S., Reinhart, C.M, Trebesh, C的白皮书“中国境外贷款”显示，从1949年至2017年，中国向152个新兴或发展中国家提供了至少1974笔中国贷款和2947笔中国资金支持。他们估计，截至2018年，中国政府拥有超过5万亿美元的债务要求（占全球GDP的6%），这是并行实施的两种战略的结果，第一个是人民币国际化（人民币），后者是一带一路倡议(BRI)，21世纪初，世界其他国家的信贷总额不到5000亿(占世界GDP总值的1%)。

人民币国际化（RMB）正式被称为人民币（CNY）至少是从2002年初开始，当时这是一个模糊的想法，但在2006年，中国人民银行（央行）倡导的一群学者在一份报告（The timing, Path, and Strategies of RMB internationalization）开始形成适当的国家政策。本文件确认，人民币的国际化将促进中国的国际地位、其竞争力及其对全球经济的影响。这一政策的第一个实现是在2015年，当时国际货币基金组织(IMF)决定将货币纳入构成货币基金组织特别

提款权(SDR)的货币，这是中国全球金融一体化的一个重要里程碑，因为它承认国际人民币的使用和贸易的增长(RMB)。

与此同时，中国政府为21世纪最伟大、最重要的国家发展战略奠定了基础，“一带一路倡议”(BRI)于2013年底启动了全球基础设施发展战略。这一倡议包括了至少代表全球人口的2/3和全球GDP的33,3% (260.00亿美元)的68个国家，除了今天积极参与该项目的国家，共有138个国家签署了一份谅解协议(MoU)。谅解协议没有法律价值，是由两个或两个以上国家签署的正式文件，双方声明在有限时间内在特定领域合作，它们需要短时间才能批准并可以保密。这可能是为什么奥地利、贝宁、科摩罗、刚果民主共和国、多米尼加、尼日尔和俄罗斯联邦等一些国家没有全面确认签署谅解协议，甚至否认签署谅解协议的原因。

参与的国家主要来自贫穷或发展中地区，位于东亚经济和欧洲发达经济体之间，横跨三大洲，在不久的将来有巨大的经济发展潜力。中国的资金填补了国际基础设施资金的缺口，但与此同时，它引发了债权和债务争端，并对中国向许多贫穷和发展中国家贷款的可持续性提出质疑。最担心的是，这些国家将承担的债务将积累，这将阻碍健全的公共投资和经济增长。此外，这些债务将造成对以中国为债权人的严重依赖。不断增加的债务，以及中国在管理双边债务问题方面的作用，已经加剧了一些金砖四国国家的内部和双边紧张局势，比如斯里兰卡，那里的公民经常就汉班托特港周围的一个新工业区与警方发生冲突。

2018年4月，在国际货币基金组织(IMF)-中国人民银行联合会议上，国际货币基金组织前负责人克里斯汀·拉加德表示，对于大规模支出，全球各地的经验表明，总是存在潜在失败项目和滥用资金的风险。在2019年4月的国际合作一带一路论坛上，克里斯汀·拉加德表示：历史告诉我们，如果不仔细管理，基础设施投资可能会导致有问题的债务增加。...我在那之前说过，要想完全成功，一带一路应该只去需要的地方。我今天要补充的是，它应该只去各个方面都处于发展中的地方。(拉加德，2019年)。

人们普遍担心，“中国金融可能通过将大量资金转移给管理不善的政权来直接加剧腐败”，被称为“资源诅咒”，“为专制政府提供金融生命线”。这在斯里兰卡的情况下是非常正确的。

## Introduction

China and Sri Lanka relations have never been as intensive as in recent years. Sri Lanka is a ‘*time-tested friend*’<sup>1</sup>, it was among the first countries to recognise the People’s Republic of China (PRC). Starting from R. G. Senanayake Minister of Trade and Commerce at the time (1952) signee of the Ceylon-China Rubber-Rice Pact, many other Sri Lankan politicians and presidents have kept alive the two countries’s relationship up to the present day. In recent years the intensity of financial relations between Beijing and Colombo have peaked, the bilateral relations have also reached a wider range of interest all thanks to the ‘China-Sri Lanka All-round Cooperation Partnership of Sincere Mutual Support and Ever-lasting Friendship’ proclaimed in 2005.<sup>2</sup>

The Chinese support has been provided to a wide range of sectors, such as infrastructure development, economic aid, crude oil exploration, investment but also diplomatic support. The intensification of commercial relations with China is effecting Sri Lanka’s relations with the rest of the world, especially with the two most important commercial partners, India and the United States. It came as a surprise when in 2018 the US government under president Trump administration decided to cut down economic support fund (ESF) by about 90% on its budget in a time when coordinated action is needed in order to not let China expand further its economical influence on the island.<sup>3</sup> As in the case of the US, Indian developmental assistance to its neighbours also dipped during 2016-2017. As for figures from the ministry of external affairs, in 2014-2015 India provided INR 4.99 billion (\$66.1 million), INR 4.03 billion in 2015-2016 (\$53.35 million) but in 2016-2017 India only provided INR 730 (\$9.67 million).<sup>4</sup>

Although Sri Lanka might be a major country on the ‘‘String of Pearls’’ which is part of the Chinese strategic initiative in the Indian Ocean, known as the Maritime Silk Road, part of the One Belt, One Road<sup>5</sup>, according to Horn, S., Reinhart, C.M, Trebesh, C. ‘‘China’s overseas Lending’’ paper at least 1,974 Chinese loans and 2,947 Chinese grants have been granted to 152 emerging or developing countries in the time period that goes from 1949 to 2017. They estimate that as of 2018 the Chinese

---

<sup>1</sup> Manohran N., (07 May 2013) ‘‘ China and its Peripheries: Beijing and India-Sri Lanka Relations ‘’. IPCS - China Research Program (CPR)

<sup>2</sup> Ibid.

<sup>3</sup> Behuria, A. K. (2018). How Sri Lanka Walked into a Debt Trap, and the Way Out. *Strategic Analysis*, 42(2), 168–178

<sup>4</sup> Ibid.

<sup>5</sup> Mendis, P. (NOV 12, 2017) The BRI and the Buddhist Kingdom of Lanka.



government hold more than 5 trillion USD (Portfolio debt investment + FDI debt + Trade credit + Loans) of debt claims to the rest of the world (6% of the world GDP). In the early 2000s the total credit from the rest of the world was less than 500 billion (1% of the world GDP) this is the result of two strategies carried out in a parallel way that reinforce one another, the first being the internationalization of the renminbi (RMB) and the latter one The Belt and Road Initiative (BRI).

The internationalization of the renminbi (RMB) officially called Chinese yuan (CNY) a topic which have been around at least from the early 2002, at the time it was a vague idea but it started to shape into a proper state policy in 2006 when a group of scholars promoted by the People's Bank of China (PBoC) outlined this policy in a report (*The timing, Path, and Strategies of RMB internationalization*). This document affirms that the internationalization of the RMB would promote the international status of China, its competitiveness and its influence on the global economy. This policy first achievement was reached in 2015 when the International monetary Fund (IMF) decided to include the RMB to the basket of currencies which make up the IMF's Special Drawing Right (SDR), this is an important milestone in China's global financial integration because it is an acknowledgement of the growing international use and trading of renminbi (RMB).

At the same time the Chinese government was laying the bases for its greatest and most important national development strategy in the 21st century, The Belt and Road Initiative (BRI) a global infrastructure development strategy started in late 2013. This initiative involves at least 68 countries which represents more than 2/3 of the global population and the 33,3% of the global GDP (\$26.000 billions), besides the country that are actively taking part in the project as of today a grand total of 138 countries have signed a Memorandum of Understanding (MoU). A MoU does not have legal value, it is a formal document signed by two or more countries in which the parties state the will to cooperate in a specific area for a limited period of time, they take a short time to ratify and can be kept confidential. That might be the reason why some countries like Austria, Benin, Comoros, Democratic Republic of the Congo, Dominica, Niger and the Russian Federation have not published a full confirmation of the signing a MoU or have even denied signing one.<sup>6</sup>

The countries involved by the BRI are mainly from poor or developing regions, located between the economy of East Asia and the developed economies of Europe, It stretches through three continents, with an enormous potential for economic development in the near future.<sup>7</sup>

---

<sup>6</sup> Amighini, A. (Jan, 2020). Finanza e potere lungo le Nuove via della Seta. Bocconi Editore ISBN 978-88-8350-308-5 (41/191)

<sup>7</sup> Ibid.

“*Chinese money fills a gap in the international infrastructure funding*”<sup>8</sup> but at the same time it is causing debt and debt debate and raising questions about the sustainability of the loans granted by China to many poor and developing countries. The prime concern is that the debt that those country will be taking will leave countries with debt “overhangs” that will impede sound public investments and economic growth. Moreover, the debt will create significant degree of dependency on China as a creditor. Increasing debt, and China’s role in managing bilateral debt problems, has already exacerbated internal and bilateral tensions in some BRI countries, such as Sri Lanka, where citizens have regularly clashed with police over a new industrial zone surrounding Hambantota port.

At a joint International Monetary Fund (IMF)–Peoples’ Bank of China conference in Beijing in April 2018, the former head of the IMF, Christine Lagarde, stated that, in the case of large-scale spending, experiences from across the globe show that there is always a risk of potentially failed projects and the misuse of funds. At the April 2019 Belt and Road Forum for International Cooperation, Christine Lagarde stated:

*“ history has taught us that, if not managed carefully, infrastructure investments can lead to a problematic increase in debt. ... I have said before that, to be fully successful, the Belt and Road should only go where it is needed. I would add today that it should only go where it is sustainable, in all aspects.”* (Lagarde, 2019) .<sup>9</sup>

There are widespread concerns that “Chinese finance may fuel corruption directly through the transfer of large funds to poorly governed regimes” termed as ‘the resource curse’ and ‘provide a financial lifeline to repressive, authoritarian governments. This was very much true in the context of Sri Lanka.<sup>10</sup>

---

<sup>8</sup> Van der Meer S., (06 Mar 2019 "Demystifying Debt along China's New Silk Road", *The Diplomat*, (3/6)

<sup>9</sup> Hurley, J., Morris, S., Portelance, G. Examining the Debt Implications of the Belt and road initiative from a Policy Perspective. (MAY, 2018)

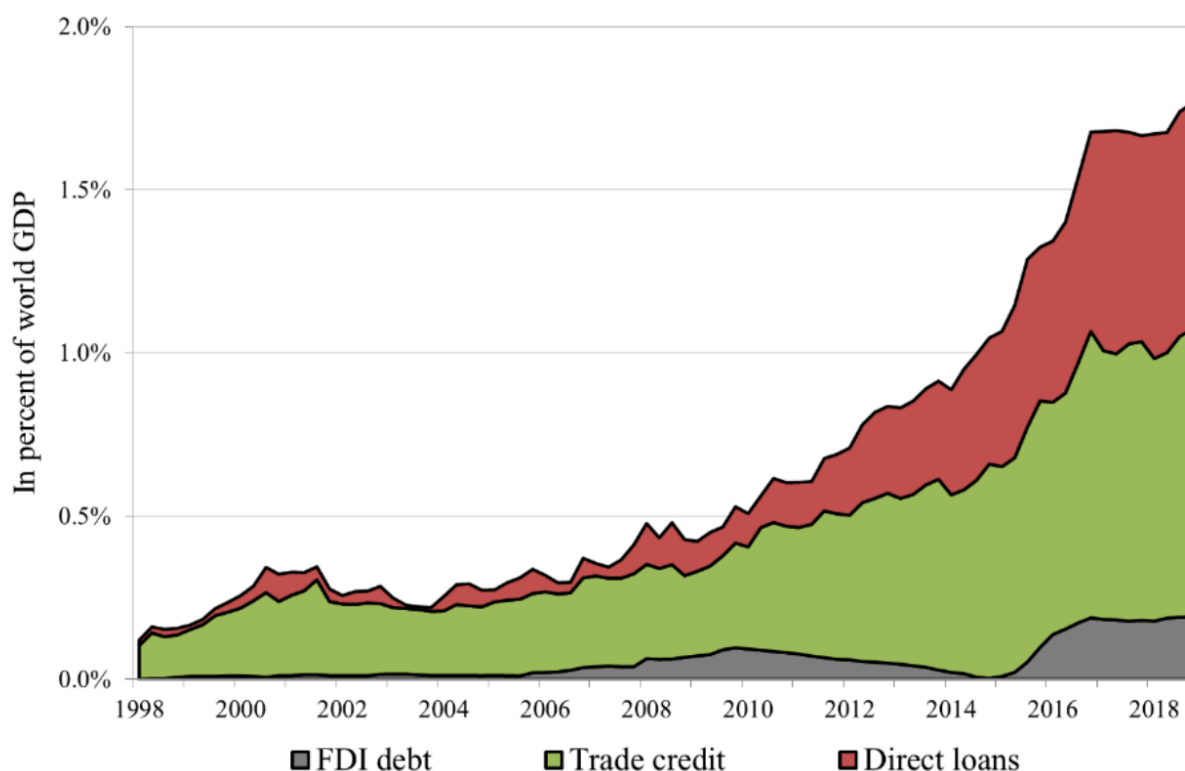
<sup>10</sup> Behuria, A. K. (2018). How Sri Lanka Walked into a Debt Trap, and the Way Out. *Strategic Analysis*, 42(2), 168–178

## Chapter 1

### Chinese overseas lending boom

While China's role in the international trade is highly notable and publicised and often politically polarized, the growing influence as a major provider of finance remain more obscure. A peculiarity of China's external lending and portfolio investment is that it is official, meaning that it is undertaken by the Chinese government, state-owned companies, or the state-controlled central bank.<sup>11</sup>

Figure 1. China's Overseas lending boom<sup>12</sup>



The major driver for making China a dominant creditor in the past 20 years is the extraordinary increase in the country's GDP. Another factor that influenced this process is the "Going Global Strategy" initiated in 1999<sup>13</sup> with the target to foster Chinese investments abroad. Loans granted by China have helped many developing and emerging market countries by financing large-scale investments in infrastructure with projects going from energy to transportation. Those projects have the potentiality to bring large positive effects for growth and prosperity. The RMB

<sup>11</sup> Horn, S., Reinhart, C.M., Trebesch. (JUL, 2019) China's Overseas Lending. NBER WORKING PAPER SERIES. National Bureau of Economic Research. (2/77)

<sup>12</sup> Ibid. (6/77)

<sup>13</sup> Ibid. (4/77)

internationalization policy launched in 2006 and the formal announcement of the BRI in the 2013 also played a major role in the rise of large lending flow. The BRI is in fact a very important focus point in the increase of Chinese lending. Going back to figure 1, it's clear that there have been an exponential growth in lending, while before the BRI was announced China was implementing singular projects with different objectives, under the BRI project there is a unique policy.

The Asian development bank(ADB) estimates that Asia alone needs a cumulative investment of 26\$ trillion<sup>14</sup> on infrastructure until 2030 in order to sustain current growth pace. Chinese infrastructure projects are filling a real need. So this might lead to a “ win-win” situation, China can invest its foreign currency reserve and get its money back with interest, at the same time China can also improve RMB circulation and potentially find new markets for its product from the recipient country prospective, it would have a real opportunity to bring growth through the infrastructural project that are being implemented in the country.

- These large lending flows have build-up and result in high debt servicing burdens for many countries. For the most 50 indebted recipients of Chinese loans, the average stock of debt owed to China have increased from less than 1 percent of GDP in 2005 to more than 15 percent in 2017 and on average accounts to approximately 40 percent of the total reported external debts for those countries.<sup>15</sup> Moreover Horn Et. Al. (2019) found that roughly 50 percent of Chinese loans to developing countries goes unreported. The systematic underreporting of Chinese loans to developing countries distort the views of the official and private sector in 3 main ways:
- Official surveillance is hindered since the total debt of a country might be unknown.
- Private sectors cannot properly price debt contracts, such as sovereign bonds because since they don't have a clear picture of how healthy the economic system of a country might be.
- Global forecast of economic activity is affected by the missing information that can influence aggregate global demand.

---

<sup>14</sup> Van der Meer S., (06 Mar 2019 "Demystifying Debt along China's New Silk Road", *The Diplomat*, (2/6)

<sup>15</sup> Horn, S., Reinhart, C.M., Trebesch. (JUL, 2019) China's Overseas Lending. NBER WORKING PAPER SERIES. National Bureau of Economic Research (4/77)

The data available used in figure 1 shows us that “*China’s direct loans and trade credits have climbed from almost zero in 1998 to 1.6 trillion USD*”<sup>16</sup> totaling almost 2 percent of the world GDP in 2018.

But why does China’s finance remain so opaque and goes unreported ? China does not report on its official international lending and there is no comprehensive standardized data on Chinese overseas debt stocks and flows. One of the main reasons for this is fact that China is not a member of the Paris Club (an informal group of creditor nations) it functions as a forum for ensuring maximum repayment under distressed conditions. Country members keep tracks of sovereign borrowing from official creditors. There are currently 22 Permanent Members of The Paris Club (Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Ireland, India, Israel, Italy, Japan, Netherlands, Norway, Russia, South Korea, Spain, Sweden, Switzerland, United Kingdom, United States )<sup>17</sup>.

In 2016 during its G20 presidency, China gave serious consideration to join the Paris Club, but ultimately did not make a commitment to pursue membership. However, China agreed to keep the door open and to play a “more constructive role” in Paris Club discussions.<sup>18</sup> Also, China is not a member of the The Organisation for Economic Co-operation and Development (OECD). Those are the main reasons for Chinese international investments and Chinese loans data not being monitored or gathered by any international institution. International bodies however, are not the only ones keeping track of international finance, as credit rating agencies such as Moody’s or Standard & Poor, or data providers like Bloomberg or Dealogic provide and work with information about private creditors, but as mentioned before China in its vest as international creditor mostly provides official credit, therefore Chinese Financial information is also off their radar screen.<sup>19</sup>

From the debtor side, data coverage is not much better. This though has to do with the way China lends abroad, almost all Chinese overseas lending is extended via Chinese state-owned entities to another state-owned end to the recipient side making the transaction a company-to-company

---

<sup>16</sup> Ibid. (5/77)

<sup>17</sup> Paris Club - Wikipedia

<sup>18</sup> Hurley, J., Morris, S., Portelance, G. Examining the Debt Implications of the Belt and road initiative from a Policy Perspective. (MAY, 2018). (20/38)

<sup>19</sup> Horn, S., Reinhart, C.M., Trebesch. (JUL, 2019) China’s Overseas Lending. NBER WORKING PAPER SERIES. National Bureau of Economic Research (2/77)

lending which is often not collected by statistical offices in the vast majority of developing countries. According to the IMF only 1 in 10 low-income countries report this kind of transaction.<sup>20</sup>

A further explanation for this reporting gap could be attributed to the “circular” lending strategy adopted by China. This is a strategy that China adopts for risky debtors, this allow to bypass the transfer of money to account controlled by the recipient government, alternatively the granted money is transferred directly fo the Chinese contractor implementing the project in the foreign country. This way China minimizes the risk of default on its loans and the misuse of the granted money at the same time what would originally have been a cross-border flow to report can go unreported.<sup>21</sup>

A newly published white paper (see note <sup>22</sup>) “ How China Lends : A rare look into 100 debt contracts with foreign government ” by Gelpern A., Horn S., Morris S., Parks B. and Trebesh C., (Mar 2021) shed a light into the opaqueness of the details of Chinese loans. The study which analyse 100 Chinese loan contracts to 24 countries.

During an interview Anna Gelpern, professor of Law at Georgetown, one of the author of the white paper ”there is not any particular smoking gun clause, It’s more the combination of clause that together add up to impressive bargaining power vis-à-vis the debtor and vis-à-vis the other creditors,‘’.

Parks executive director of AidData<sup>23</sup>, said ‘‘Chinese lenders behave a lot like commercial lenders: muscular, commercially savvy lenders who want to be paid on time and with interest,’’. Parks also said that the contracts are written in way of positioning China as a “preferred creditor” allowing China to seek repayment first in the event of a problem or default.

One way China secure loans repayment is through requiring borrowers to create separate escrow or special accounts with cash balance that can be seize by China in case of default. These special accounts Chinese lenders require of borrowers are found in about 30% of contracts.

---

<sup>20</sup> Ibid. (9/77)

<sup>21</sup>Horn, S., Reinhart, C.M., Trebesch. (JUL, 2019) China’s Overseas Lending. NBER WORKING PAPER SERIES. National Bureau of Economic Research (9/77)

<sup>22</sup> A *white paper* is a report or guide that informs readers concisely about a complex issue and presents the issuing body's philosophy on the matter.

<sup>23</sup> AidData is one of the first Research Lab that provided comprehensive data on Chinese Loans though gathering and cross analyse of foreign country debt report with the scarce Chinese data.

Another way is by essentially requiring countries to exempt Chinese loans from restructuring efforts with other lenders. The study refers to these as “no Paris Club” clause. The no Paris Club” clauses was found in nearly 75%, in contracts to the Chinese intent to have a “more constructive role” in Paris Club discussions.

The study also finds that nearly all the loans taken into account included strict nondisclosure agreements except in cases where the recipient country domestic laws requires to make such contracts publicly accessible, which is how the data was collected.

Another aspect of these contracts giving leverage to China are the “cross-default” or “cross-cancellation” provisions they in essence tie various loans to one another, making it harder for a borrower to walk away from a project and give Chinese institutions bargaining power and policy influence.

To explain better, what happened in Argentina is a clean example of such clauses. China Development Bank had granted a \$2 billion loan for the construction of a railway project which had a cross-cancellation clause tied to another Chinese loans of \$4.7 billion for a hydroelectric dam project. When a new presidential administration took office in Argentina and tried to cancel the dam project on environmental concerns, the China Development Bank threatened to cancel the railway project loan. Argentina’s government reversed its decision. The contracts in same cases have presented provisions of political nature, some contracts clearly dictate that if the reception country would cut its ties with China, it would result in default. Some contracts include broad language, for example stating that defaults can be triggered by ‘adverse’ actions to a Chinese entity.<sup>24</sup>

### **1.1 Chinese financial instruments used abroad**

Something that distinguishes China from other Creditor countries or multilateral institutions is the fact that China tailors its overseas lending and financial activity by recipient country, while multilateral institutions like the World Bank, the International Monetary Fund or the previous mentioned Paris Club follow a preset of standards when granting loans.

---

<sup>24</sup> Saldinger A., (31 March 2021) ‘How does China lend? Insight from a study of 100 loans’  
Devex.com

Scott Morris<sup>25</sup> observed that in general China adapts to the local laws and regulation of the country when it lends for development projects, this leads to two scenarios, loans with high standards when the local laws are strong and loans with low standards when laws are weak.

When China interacts with advanced or middle-income countries rather than direct loans it usually chooses the form of portfolio investments such as sovereign bond purchase. In fact many advanced countries are heavily indebted to China. For example the US, by 2011 China had purchased US Treasury securities for a total 1.6 trillion USD in other terms 10% of the USA GDP.

Figure 2<sup>26</sup>

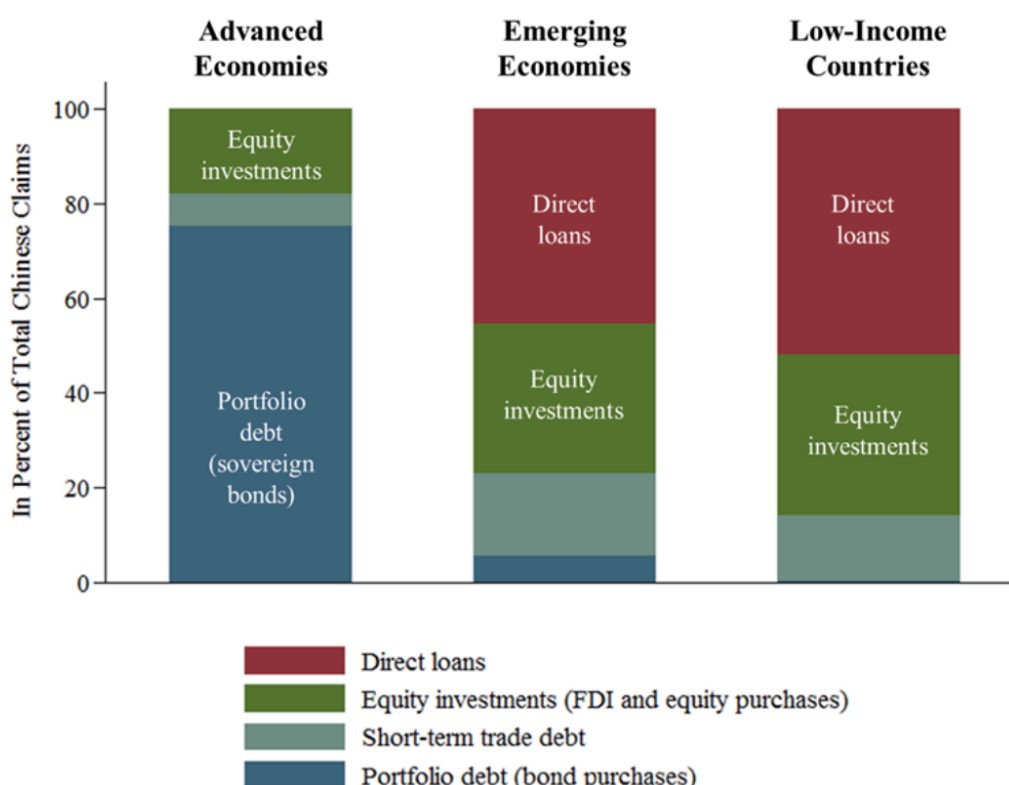


Figure 2 country classification into income groups follows the IMF World Economic Outlook database. As we can see, the form or type of economic engagement depends on the recipient country of economic region to which they belong.

<sup>25</sup> Scott Morris is Director of the US Development Policy Initiative, Co-Director of Sustainable Development Finance, and Senior Fellow. He is an expert in International Financial Institutions (IFIs) and particularly the relationship between the IFIs and the United States. He is co-author of “Examining the Debt Implications of the Belt and road initiative from a Policy Perspective”. (MAY, 2018)

<sup>26</sup> Horn, S., Reinhart, C.M., Trebesch. (JUL, 2019) China’s Overseas Lending. NBER WORKING PAPER SERIES. National Bureau of Economic Research (37/77)



## 1.2 Loans

Horn et al. (2019) loans database analysis shows that Chinese foreign loans can be categorized into three broad categories:

- 1) interest free loans
- 2) concessional loans
- 3) commercial loans

75% of the analysed loan falls into one of these 3 categories, for the rest 25 percent they make an assumption that those loans are extended at concessional rates meaning low interest and long maturity. Interest-free loans are usually granted by the Ministry of Commerce that oversees China's Foreign aid program at 0 percent interest rates, with a maturity of 20 years with a grace period of 5 years. They can be partially tied to Chinese Export, these loans account for a very small share of the overall data, just 0.20 percent of the database by Horn Et Al. (2019). Concessional loans are mostly granted by China Export-Import Bank, those loans come with a 2-3 percent interest rate, 20 years maturity with a grace period of 5 years. They can be partially tied to Chinese Export and potentially collateralized by commodities or profits. These loans account for 15.80 percent of the database. Commercial Loans are granted by a group of Chinese state-owned entity such as China Export-Import Bank, China Development Bank, or other state-owned commercial banks and state-owned enterprises. On average the interest rate in this category is 5 percent, 15 years maturity with a 0 to 5 years grace period.

Besides the characteristic of the loans, Chinese loans also differ in the purpose for which they are granted: loans for specific projects (like the one granted to Ethiopia for a railway), credit lines extended for unspecified projects (China Development Bank opened a credit line in favor of Ghana), loans to national companies (Angola's oil firm Sonangol), loans for budgetary items (as in Zimbabwe), and foreign exchange swap lines.<sup>27</sup>

---

<sup>27</sup> Kratz, A., Feng, A., & Wright, L. (2019, April). "New data on the 'debt trap' question" Rhodium Group. (3/7)

### 1.3 Short-term trade credits

Another important financial instrument used by China is represented by short-term trade credits in the form of export buyers credit (given to the borrowing country) or export sellers credit (given to a Chinese company) to buy/sell goods and services. The most used is the buyer credit form, most of these loans are being insured by China's state-owned export credit agencies, Sinosure being the most prominent. Data shows that stand alone Sinosure in 2017 provided short-term credit for more than 17% of total Chinese exports, reaching a value of 412 billion USD. As mentioned, Chinese loans can be tied with Chinese exports, as per terms and conditions of the Exim Bank, most projects have to be executed by Chinese contractors moreover as much as 50% of the equivalent materials, technology and services have to be sourced from China. In the period of time that goes from 2000 to 2017 two banks have been the major players in the overseas lending by China, namely, China Export-Import Bank and China Development Bank.<sup>28</sup> All together those two banks account for 75% of all direct cross-border transaction between 2000 and 2017<sup>29</sup>. (see figure 5)

### 1.4 The China Development Bank (CDB)<sup>30</sup>

The China Development Bank (CDB) (国家开发银行 -Guójiā Kāifā Yínháng) was established in March 1994 by the Policy Banks Law of 1994. the CBD is a development bank in China, and it is led by a cabinet minister at the Governor level, under the direct jurisdiction of the State Council.

The CBD is of the three policy bank in China, policy banks are policy lenders or institutional banks set up by the State Council of China, which are The Export-Import Bank of China (Exim), the Agricultural Development Bank of China (ADBC) and the CDB. The CBD was established to provide financing for high-priority Government development projects, It is responsible for raising funds for large-scale infrastructure projects, including the Three Gorges Dam [It has been the world's largest power station in terms of installed capacity ever since it was built in 2012] and the Shanghai Pudong International Airport [the world's third-busiest airport by cargo traffic. It served a total of 74,006,331 passengers in 2018, making it the third-busiest airport in China after Beijing

---

<sup>28</sup> Horn, S., Reinhart, C.M., Trebesch. (JUL, 2019) China's Overseas Lending. NBER WORKING PAPER SERIES. National Bureau of Economic Research (34/77)

<sup>29</sup> Ibid. (20/77)

<sup>30</sup> China Development Bank - Wikipedia

Capital, fifth-busiest in Asia, and the eighth-busiest in the world]. CDB is described as the engine that powers the Chinese government development policies.

In the last decade CDB issued 1.6 trillion yuan in loans to more than 4,000 projects involving infrastructure, communications, transportation, and basic industries. “ Debts issued by the China Development Bank are owned by local banks and treated as risk-free assets under the proposed People's Republic of China capital adequacy rules, the same treatment as PRC government bonds . The bank is the second-largest bond issuer in China after the Ministry of Finance. In 2009, it accounted for about a quarter of the country's yuan bonds and is the biggest foreign-currency lender.

### **1.5 The Export–Import Bank of China (Chexim)<sup>31</sup>**

The Export–Import Bank of China (Chexim - China Exim Bank) ( 中国进出口银行 - *Zhōngguó Jīnchūkǒu Yínháng*) established as the CDB in 1994, while apparently the CDB focus is on developing China it self by reducing the growing economic disparity in the western provinces, Chexim is officially described as bank involved with foreign trade, foreign investments and foreign aid to developing countries. It also provide financial support to promote the export of Chinese products and services, to do so it uses the preferential export buyer's credit (优惠买方信贷) loan program. The bank’s activity includes export credits (mainly in infrastructural project) and investments for Chinese Industries involved in the energy production to establish overseas plants. Chexim is the sole provider of Chinese concessional loans (优惠贷款), loans granted in favor of developing countries with very low interest rates.

Horn et al. (2019) analyzed publicly available balance sheet data and annual reports of the big Chinese creditor banks in doing so they found that China Development Bank, is one of the largest Chinese overseas lenders. In the CDB’s annual report, the bank reports total outstanding overseas loans for 210 billion USD, unfortunately the bank only provide the cumulative value of the loans, without providing a breakdown.

---

<sup>31</sup> Exim Bank of China - Wikipedia

## 1.6 The AIIB

The birth of the Asian Infrastructure Investment Bank (AIIB) (亚洲基础设施投资银行 - *Yàzhōu jīchǔ shèshī tóuzī yínháng*) was initially proposed by the Chinese Center for International Economic Exchanges in 2009, it was first conceived as a way to put to good use Chinese extensive reserve of foreign currency. In October 2013 the project was endorsed and officially launched by China's leader Xi Jinping. The multilateral institution started operations in December 2015 after the Articles of Agreement (AoA) entered into force with ratification from 17 member states holding 50.1 per cent of the shares.

Looking back at the history of the institution we could say that the process that led to its birth was not an easy one, in some way endorsing this project meant endorsing China as a new world power, and recognizing its increasing influence. On 24 October 2014, 21 countries signed a Memorandum of Understanding (MOU) concerning the AIIB in Beijing :Bangladesh, Brunei, Cambodia, India, Kazakhstan, Kuwait, Laos, Malaysia, Myanmar, Mongolia, Nepal, Oman, Pakistan, Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan, Vietnam and Indonesia. (as of today, 19 Jun 2021, 95% of the above mentioned country are involved with the BRI<sup>32</sup>. Only India does not embrace the project<sup>33</sup>)

Allegedly the US tried to prevent Australia and south Korea from joining and becoming founding members of the initiative.<sup>34</sup> In early March 2015 the UK decided to join the Bank becoming the third Western country to join the project after Luxembourg and New Zealand. This decision was highly criticised by the US government under Obama's administration. The UK replied that by joining the bank as a founding member would have allowed the UK to influence the development of the institution from within it.

In a statement the White House National Security Council to the guardian declared:

*“Our position on the AIIB remains clear and consistent. The United States and many major global economies all agree there is a pressing need to enhance infrastructure investment around the world. We believe any new multilateral institution should incorporate the high standards of the World Bank and the regional development banks. Based on many discussions, we have concerns about whether*

---

<sup>32</sup> Asia Unbound (24 Mar 2012) “Countries in China's Belt and Road Initiative: Who's In And Who's Out”

<sup>33</sup> Times of India (13 Jun 2021) “B3W versus BRI: For US, countering China's infra swagger won't be easy. For New Delhi, Biden's plan not enough”

<sup>34</sup> AffairsCloud (24 October 2014) “China launches AIIB in Asia to counter World bank”

*the AIIB will meet these high standards, particularly related to governance, and environmental and social safeguards [...] The international community has a stake in seeing the AIIB complement the existing architecture, and to work effectively alongside the World Bank and Asian Development Bank.*”<sup>35</sup>

UK endorsement of the AIIB was followed by several other European states joining the initiative, including Germany, France and Italy. Soon after South Korea announced that it was planning to join the AIIB, considering it an opportunity for South Korean companies to secure contracts in infrastructural projects from BRI and ensuring a seat as a founding member.

Negotiations took place between November 2014 and May 2015. After the Articles of Agreement (AoA), the legal framework of the bank were concluded, the AoA was signed on 29 June 2015 by 50 of the named 57 prospective founding members in Beijing, while the other seven signed later. Australia, Austria, Brunei, China, Georgia, Germany, Jordan, Luxembourg, Mongolia, Myanmar, the Netherlands, New Zealand, Norway, Pakistan, Singapore, South Korea and the United Kingdom, 17 countries all together held 50.1% of the initial subscriptions of Authorized Capital Stock, had deposited the instrument of ratification for the agreement, triggering entry into force, and making them all founding members<sup>36</sup>. 35 other states followed later, taking the amount of Authorized Capital Stock held by the 29 members of the bank to 74%.

On 25 December 2015, the Articles of Agreement entered into force. On 16 January 2016 the bank was declared open for business.

The Asian Infrastructure Investment Bank (AIIB) fits the rules set in the Bretton Woods system. (The Bretton Woods system is the first example of a fully negotiated monetary order intended to govern monetary relations among independent states.<sup>37</sup> It provides a framework for sovereign loans). Chinese proposal of the birth of such a multilateral institution suggest that Chinese officials see some value in a multilateral approach. But multilateral institutions adhere to a common set of practices that values debt sustainability, transparency (publicly available financing terms) which does not fully reflect China's bilateral lending practices. Will BRI bend to the will of existing

---

<sup>35</sup> The Standard (13 March 2015) “Washington rebukes Britain’s decision to join China-backed Asian infrastructure bank”

<sup>36</sup> overheid.nl “Articles of Agreement of the Asian Infrastructure Investment Bank”. Government of the Netherlands.

<sup>37</sup> Bretton Woods system - Wikipedia

multilateral norms and standards, or will these standard be integrated by dominant sources of BRI financing, which so far have been CDB, China Exim Bank, and the Silk Road Fund.

The study “Social Risk Management at AIIB - Chinese or International Characteristics?”<sup>38</sup> by Gransow B., and Price S., focus on understanding if the AIIB conceptualisation of social risk is shaped predominantly by China’s own experience related to the growth a country can bring in through infrastructure development or if it follows more social sustainability standard or pre-existing multilateral standards of the Bretton Woods system. Through interview with key person involved with AIIB and documentary review, including AIIB’s introductory loan approvals report, the authors find that the AIIB’s conceptualisation of social risk have more international than national characteristics.

Others critics argue that China wants to build a separate system next to the current dominant order or Bretton Woods institutions such as the World Bank and the IMF. With its own policy banks. Van der Putten<sup>39</sup> does not think China wants to replace the World Bank, according to him China simply is willing to use all its means in the implementation of infrastructure development. But he also signals that Beijing could use its growing lending clout to gain more influence in the World Bank.

Paul Haenle <sup>40</sup> find it inevitable for China to seek the recognition of its global stature and influence. Beijing is doing so by taking on greater leadership in the Bretton Woods institutions and United Nations, and simultaneously forging its own institutions that better reflect today’s balance of power.<sup>41</sup>

World leader of the caliber of German Chancellor Angela Merkel calls for efforts to modernize institutions in order to reflect the current balance of power, rather than create new ones.<sup>42</sup>

*“From our part of the world, influenced by Western values, we should be ready to look at established institutions and see the balance of power realistically reflected with them,”*

---

<sup>38</sup> Gransow, B., Price, S. Social Risk Management at AIIB – Chinese or International Characteristics?. J OF CHIN POLIT SCI 24, 289–311 (2019)

<sup>39</sup> Dr Frans-Paul van der Putten is a Senior Research Fellow at the Clingendael Institute. His area of research is the geopolitical significance of the rise of China as a global power. He is the coordinator of the Clingendael China Centre.

<sup>40</sup> Paul Haenle holds the Maurice R. Greenberg Director’s Chair at the Carnegie–Tsinghua Center based at Tsinghua University in Beijing, China. Haenle served as the director for China, Taiwan, and Mongolia Affairs on the National Security Council staffs of former presidents George W. Bush and Barack Obama prior to joining Carnegie.

<sup>41</sup> Van der Meer S., "Demystifying Debt along China's New Silk Road", *The Diplomat*, March 6, 2019 (5/6)

<sup>42</sup> Ibid. (5/6)

*“We have to accept new realities and reforms, and a new approach that will address those who harbor doubts about the international system.”*<sup>43</sup> declaration of German Chancellor Angela Merkel at the World Economic Forum in January 2019.

Reportedly The World Bank, ADB, AIIB, and European Bank for Reconstruction and Development (EBRD) signed a memorandum of understanding with the Chinese government expressing collaboration on the BRI. Yet, the content of the MoU suggest that it does not seek to apply Multilateral Development Bank (MDB) standards to the initiative overall, instead it focuses more narrowly on cooperation among the MDBs themselves on BRI projects. Surprisingly the MoU itself is not publicly available, suggesting that transparency standards normally associated with the MDBs have been set aside in favor of those associated with the Chinese government.<sup>44</sup>

The AIIB remains very small in the share of China's international financing, according to Amighini (2021) the AIIB only provided 7.5 billion in the time period 2016-2018<sup>45</sup>, compared to annual lending from other bilateral institutions which on average provide funding of \$30-40 billion.

Then why, despite all the Chinese efforts to come up with the AIIB it only remains marginally being involved in the funding of the BRI ? Some have speculated that China prefers granting sovereign loans which leads back to the debt-trap diplomacy narrative.

---

<sup>43</sup>declaration of German Chancellor Angela Merkel at the World Economic Forum Annual Meeting in Davos-Klosters, Switzerland.

<sup>44</sup> Hurley, J., Morris, S., Portelance, G. Examining the Debt Implications of the Belt and road initiative from a Policy Perspective. (MAY, 2018).

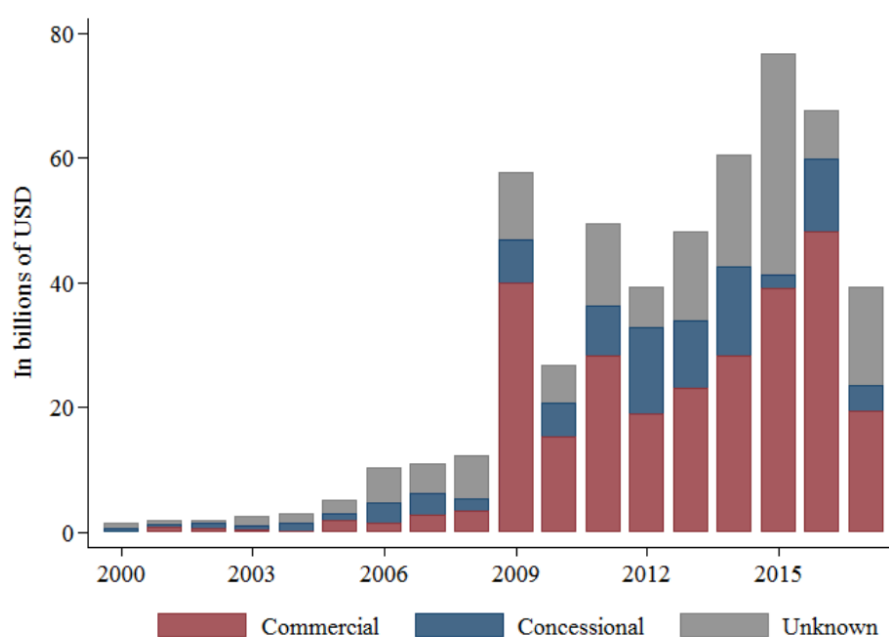
<sup>45</sup> Amighini, A. (Jan, 2020). Finanza e potere lungo le Nuove via della Seta. Bocconi Editore ISBN 978-88-8350-308-5 (58/187)

## 1.7 China as a Donor

China's role as donor is also expanding. Increasingly alongside its finance, China is providing monetary aids to Low-Income Countries (LIC) on its own and through multilateral mechanism like the World Bank's International Development Association (IDA). China has gone from being a recipient country of such fund to become one of the largest donors in 2016. China changed its status in the relationship with IDA in 1999, in the following years China was not enthusiastically participating as a donor but slowly changed its engagement. This shift appears to be part of a broader strategy. There are studies expressing concerns about Chinese aids, in particular related to governance, corruption, aid effectiveness and transparency. There is widespread concern that China might be using aid for its political agenda by transferring large amounts of funds to poorly governed country supporting repressive and authoritarian governments. This appears to be the nature of China-Sri Lanka recent years relationship strengthening. (This topic will be largely explored in chapter 2)

Figure 3 give us a graphic measure of the data mentioned above regarding the terms of Chinese overseas lending in the period of time 2000 to 2017.

Figure 3 <sup>46</sup>

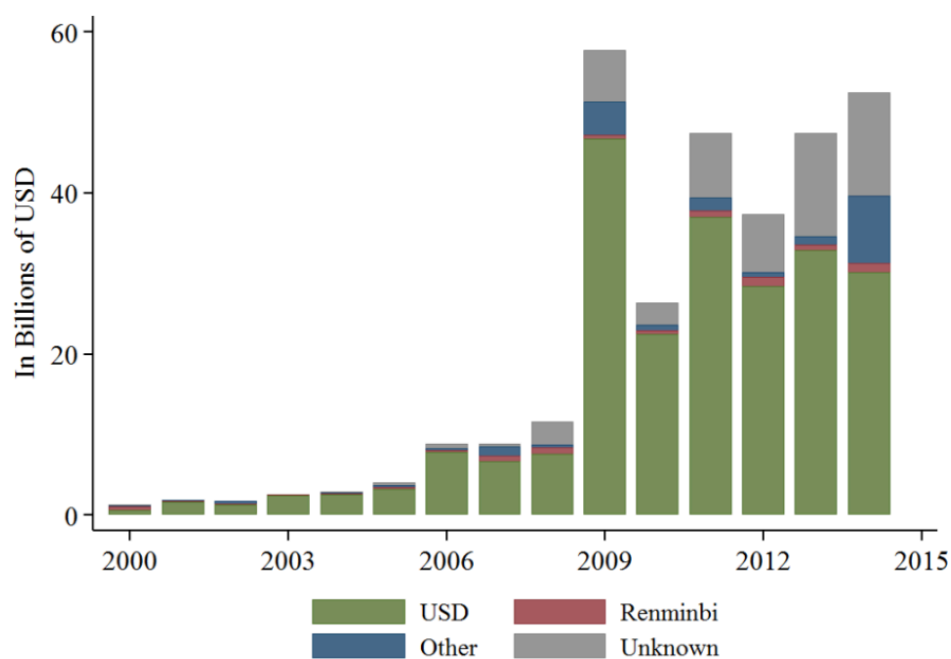


<sup>46</sup> Horn, S., Reinhart, C.M., Trebesch. (JUL, 2019) China's Overseas Lending. NBER WORKING PAPER SERIES. National Bureau of Economic Research



Another aspect regarding the above mentioned loans is that 85% of those loans were denominated in USD. Although the efforts to increase the use of RMB internationally, only a very small portion of these loans were denominated in RMB, but a small growth can be noted.

Figure 4 <sup>47</sup>



<sup>47</sup> Horn, S., Reinhart, C.M., Trebesch. (JUL, 2019) China's Overseas Lending. NBER WORKING PAPER SERIES. National Bureau of Economic Research

## 1.8 Resource-backed Loans

Chinese loans often come with collateral clauses, those clause are used to secure repayment of the interest and principal repayments through commodity export proceeds (e.g. export proceeds of raw materials and agricultural products) or by giving the creditor the right to attach the profits of state-owned enterprises. There is common misconception about oil-backed agreements, the notion that borrowing countries pay back the loan by shipping crude oil to China, in this narrative China is seen as a foreign country exploiting the natural resources of the borrowing country regardless of the formal agreement between the two parties. Loans are not paid by exporting crude oil but instead by the profit coming from the sale of it at spot market prices on the day of sale. While this does raise concern regarding the sustainability of loans in the face of commodity price downturns, it is important to note that China has demonstrated a willingness to renegotiate loans to help borrowing countries that are facing repayment difficulties, like in the Venezuela Case<sup>48</sup>. (see chapter 1.8)

(Amighini 2021, P.149) provides details on such agreements. Usually two parallel agreements occur: one regarding the details of the loan itself and the modality of the collateralization through the profit of oil of the raw material, typically the agreement settled that part of this profit has to be deposited into a restricted account designated for the repayment of the loan, then separately a purchase agreement is signed in which a Chinese enterprise commits to purchase a certain amount of those raw materials, thus ensuring a revenue flow for the debtor. The value of the purchase agreement is often much greater than the loan itself, hence only part of the deposited money is used to pay back the loan, the rest of the money can be freely used by the debtor country. Historically crude oil has been the most used option to collateralize loans, about 82% of resource-backed loans in the time period going from 2002 to 2014. Chinese economic growth has been coupled with higher demand of energy, China's import of crude-oil accounts for 16.7% of the world trade, making China the single largest importer of crude-oil. The country depends on importation for 70% of its needs, way beyond the upper limit set by the government of 62%.

---

48 Singh, A. (2020). The myth of 'debt-trap diplomacy' and realities of Chinese development finance. *Third World Quarterly*, (8/15).

Although this kind of agreement has several benefits, it also has some limitation, usually it is only agreed by governments which have few other forms of capital and that are isolated from international financial markets. Resource-backed loans make up approximately half of China's loans to Latin American nations and one-third of its loans to African nations.

The collateralization of China's lending also provides a higher seniority among other international creditors, giving China a priority in gaining its money back. This approach differs from other official lenders such as the World Bank or OECD creditor governments. Horn et al. (2019) note that these practices have historical correspondent. Loans granted to foreign country by France, Germany and the UK in the 19th century had many similar features, those loans were market based, partially collateralized and characterized by political and commercial interest. Moreover they note that no other official lender nowadays collateralizes its international loans in this way, at least not this systematically.

Despite the spread of the 'debt trap' narrative which state 'that the Chinese mainly offer loans in order to access natural resources'. Chellaney (2017) Kratz et al. (2019) found that resource-backed loans are not an element of leverage for Beijing, and in fact do not necessarily represent a strong guarantee against repayment problems. The little-know Ukrainian case provide a clear example of the limitation of Chinese leverage. Though Ukraine *'loan was backed by grain shipments, Beijing had to ultimately turn to international arbitration to resolve its dispute with Kiev, who consistently failed to provide the required volume of annual grain shipments to repay its loan. Beijing has no means to seize these grain shipments by force. In addition, the Ukraine case shows that despite China's size and growing international economic clout, its leverage in some of these cases remains quite limited, even in disputes with much smaller countries.'* Kratz, A., Feng, A., & Wright, L. (2019, April). New data on the 'debt trap' question. Rhodium Group.(6/7)

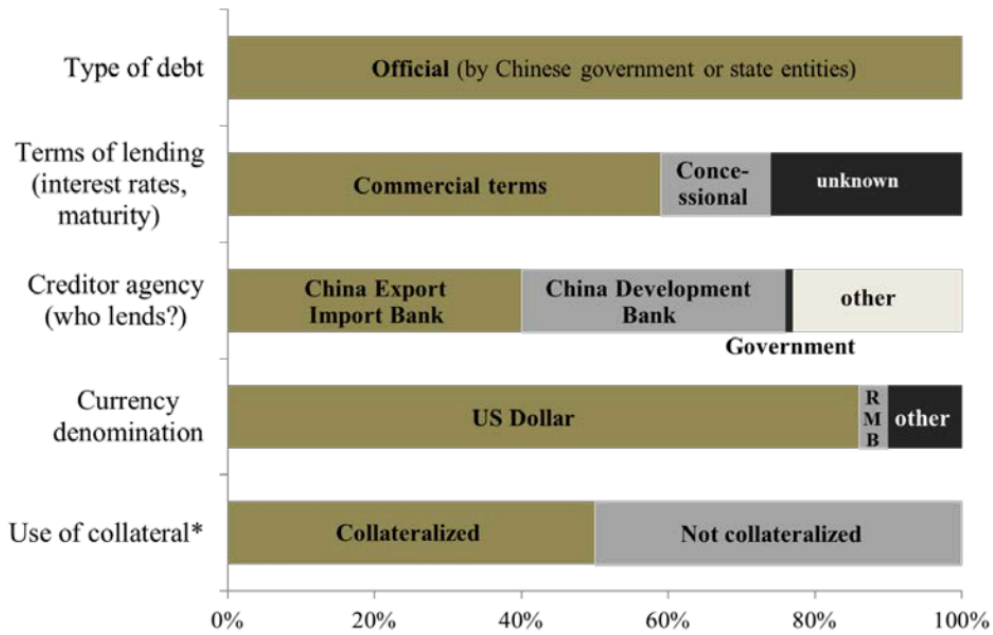
Figure 5<sup>49</sup>

Figure 5 provide a general view of Chinese overseas lending

<sup>49</sup> Horn, S., Reinhart, C.M., Trebesch. (JUL, 2019) China's Overseas Lending. NBER WORKING PAPER SERIES. National Bureau of Economic Research (22/77)

## 1.9 The Venezuela case

Venezuela is the single largest recipient of Chinese loans, with China Development Bank (CDB) extending more than US \$60 billion in loans since 2007. Venezuela and China are, respectively, the country with the world's biggest oil reserves and the world's biggest oil importer. The original commercial relation started with the objective to finance long-term oil partnerships between the two nations. The majority of the loans were signed when Venezuela was led by Hugo Chávez who practically governed the country from 1999 to 2013<sup>50</sup>. [2 Feb 1999 – 11 Apr 2002 / 14 Apr 2002 – 5 Mar 2013]

As per Gallagher (2016), after a phase of high oil prices, reaching more than US\$100 per barrel, in 2014 the price of oil began to slide significantly, prices fell by more than half. Venezuela had been suffering from a protracted economic and political crisis and failed to provide China with the promised oil deliveries. According to official reports, Venezuela in this difficult situation was able to renegotiate some of the details of the Chinese loans, the Chinese side offered to restructure the repayment terms, allowing Venezuela a two-year respite from principal repayments. Commencing in March 2015, the US government imposed sanctions on Venezuela, against the Central Bank of Venezuela (BCV) and the state oil firm *Petróleos de Venezuela SA (PDVSA)*, which generates 90% of the country's revenues, which only made things worst for Venezuela.

During this period of extreme economical distress for the country, China purchased oil from Venezuela for cash, rather than using the proceeds from the sale of the oil shipments to repay the loan (Brautigam 2019) in the attempt of providing a cash in-flow to the collapsing economy of the country. Once the two years of grace period ended, the economic situation in Venezuela had deteriorated even further, the country also had other international obligations for example to Russia. In this situation, which is exactly the opposite of the portrayed Chinese debt-trap, China was unable to secure oil shipments and loan repayments. China founds itself without foreign policy instruments to get back the money it is owed. In an article by Ferchen, Ferchen argues that in the Venezuela case Chinese loans ended up undermining China's own economic and geo-strategic interests .

While there are concerns about whether Chinese finance contributes to a continued dependency on natural resource extraction amongst borrowing governments, it does not appear that China is

---

<sup>50</sup> Singh, A. (2020). The myth of 'debt-trap diplomacy' and realities of Chinese development finance. *Third World Quarterly*. (12/18)

utilising loans in a predatory manner to secure access to natural resources. The case of Venezuela is an obvious illustration of the limited guarantees provided by oil-backed financing.

### 1.10 Swap Lines

Another least-known important element to China's presence in global finance is the growing network of swap lines, meaning standing lines of credit where central banks agree on exchanging their currencies to facilitate trade settlements and to address liquidity needs. These swap lines are agreed with the People's Bank of China (PBoC) and foreign central banks. China first started involving advanced country and then moving on to emerging and developing countries. In terms of geographical reach, this is the largest swap network amidst central banks globally. This kind of agreement is viewed as a symbol of endorsement and support of RMB, it also signifies trust between sovereignty authorities. It seems that the signing of the swap agreement is driven by both economic and political considerations.

The most updated data suggest that more than 40 has signed swap agreements, for drawing rights amounting to 550 billion USD in total.<sup>51</sup>

Originally Chinese swap lines were agreed in order to mitigate the global dollar squeeze during the 2007-2008 global financial crisis. The international monetary system experienced an acute US dollar shortage which not only curtailed American trade, it restricted transactions between other countries too as the US dollar is the main vehicle currency for international transactions. That probably has been a wake up call for China in realizing that it needed to reduce its dependence on the US dollar.

The first swap signed by China was under the Chiang Mai Initiative (CMI), The CMI swap arrangement was born in order to provide liquidity support among East Asian countries. Most of the swap lines were denoted in US dollar and local currencies. China's participation attests its commitment to maintain the stability of regional financial markets. Those swap agreements, had nothing to do with RMB internationalization.<sup>52</sup>

After that initial phase, in 2008 China signed its first swap agreement beyond the CMI with South Korea. Since then, China has started to sign currency swap agreements with a much larger set of

---

<sup>51</sup> Horn, S., Reinhart, C.M., Trebesch. (JUL, 2019) China's Overseas Lending. NBER WORKING PAPER SERIES. National Bureau of Economic Research. (68/77)

<sup>52</sup> Zhang et al (2017) "The Effect of RMB Internationalization on Belt and Road Initiative: Evidence from Bilateral Swap Agreements" *Emerging Markets Finance and Trade*, (2845-2857)

partner countries. These agreements differ from those under CMI in several ways. The new swap lines are denoted directly in RMB and local currencies of partner countries. The RMB-denominated bilateral local currency swap lines were introduced in order to provide liquidity without resorting the dollar to lubricate China's trade with the rest of the world. Simultaneously China launched its program to encourage denomination and settlement of international trade in its own currencies, the internationalization of the RMB, which aligned with the swap lines, since these RMB swap lines offer the liquidity needed for conducting RMB-denominated transactions overseas. The RMB internationalization is not just a financial move, it is a comprehensive initiative, involving trade, investment, financial stability and economic growth. It is more than currency cooperation.

Swap line beyond CMI not only differs in currency denomination, the magnitude of new agreements is much larger than those under CMI. For example, the swap line under CMI between China and South Korea was for 4 billion USD while the one signed in 2008 beyond CMI is for 180 billion RMB or 38 trillion Korean won (KRW). [27.8 billion USD]

As for most of the financial activity carried out by the Chinese government, the The People's Bank of China (PBoC) does not publish detailed data on the usage of its swap lines, but some data is public, and we do know the countries and years of the agreements. Typically, these agreements have a three-year tenor, and are renewed upon expiration. So far only Belarus and Uzbekistan did not renew the swap agreements upon expiry.<sup>53</sup>

In addition, we can obtain the outstanding claims of swap lines by inspecting recipient central banks' balance sheets. Since 2013, Argentina, Mongolia, Pakistan, Russia and Turkey all drew from their RMB swap lines in periods of market distress. At the end of 2018, China had outstanding claims towards some of these countries: In Argentina, for example swap debt to the PBoC amounted to 18.9 billion USD (3 % of GDP). China also used swap lined to provide additional credits in order to avoid default, in early 2017 China extended a 15 billion RMB swap line to Mongolia for three years in support of an IMF Extended Fund Facility. Mongolia's swap debt to the PBoC at the end of 2018 amounted to 1.75 billion USD (almost 15 % of GDP).<sup>54</sup>

The BRI was proposed in 2013, but more than half of China's bilateral swap agreements since 2009 have been negotiated with countries than eventually became part of the BRI countries.

---

<sup>53</sup> Zhitao, L., Wenjie, Z., Chenung, Y.W., (JAN 2016) Working Paper "China's Bilateral Currency Swap Lines". CESifo (4/27)

<sup>54</sup> Horn, S., Reinhart, C.M., Trebesch. (JUL, 2019) China's Overseas Lending. NBER WORKING PAPER SERIES. National Bureau of Economic Research. (35/77)

Many scholars have studied the possible benefits, which elements can influence the establishment of such an agreement. Kenen (2011) and Gao and Yu (2011) both argued the primary benefits would be the reduction of exchange risk and potential pro-trade effects.

Zhang et al. (2017) tried to answer two main questions.

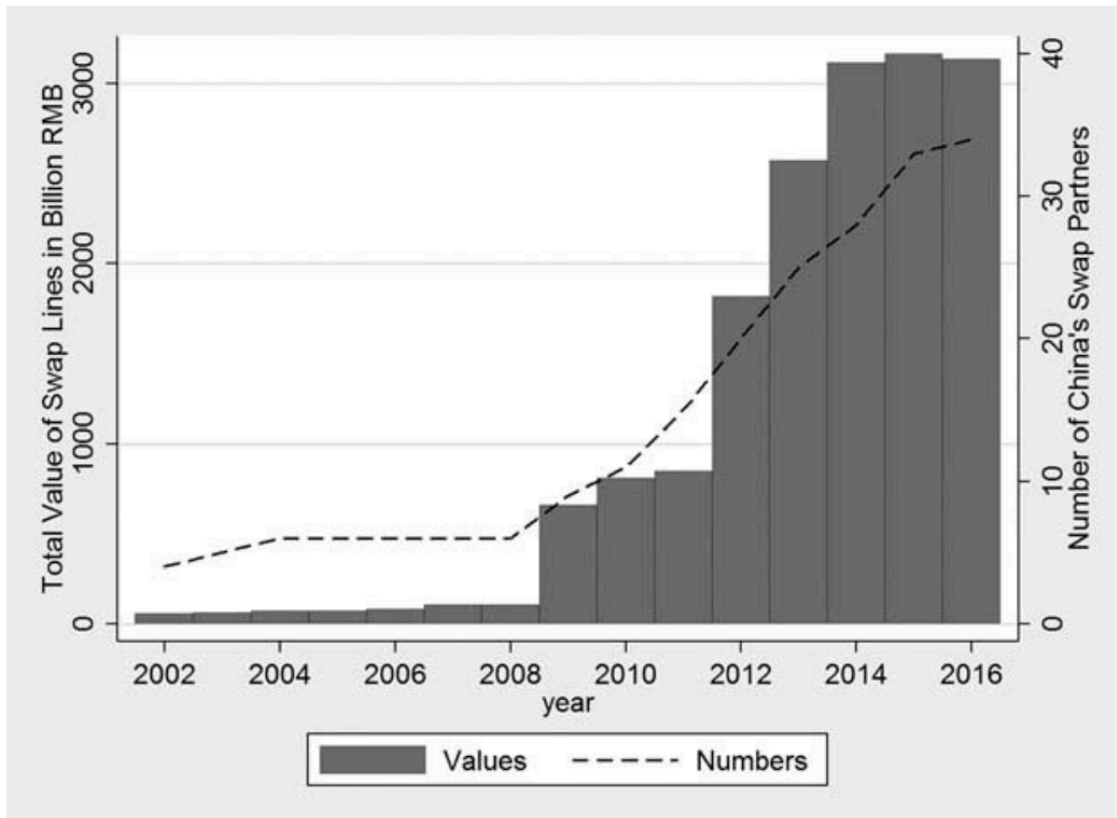
- 1) How do the negotiations of China's currency swap agreements affect the bilateral trade flows between China and its partner countries?
- 2) Is the effect different for BRI countries compared to non-BRI countries?

They found that the negotiations of swap agreement improves 30.4% of bilateral trade values between China and its partners. This effect is both statistically and economically significant. When tested using BRI countries subsample, the effect is even larger, reaching as high as 37.3% on average.

*“ The decision of establishing a Chinese bilateral RMB local currency swap line depends on economic factors, political considerations, and institutional characteristics. For instance, the trade intensity, economic size, strategic partnership, free trade agreement, corruption, and stability are found to be determining factors. Once a swap line agreement decision is made, then the size of the swap line is mainly affected by trade intensity, economic size, and the presence of a free trade agreement. ”* Zhitao et al (2016) China's Bilateral Currency Swap Lines CESifo Working Paper, No. 5736, Center for Economic Studies and ifo Institute (CESifo), Munich

Figure X provides a graphic reference to the trend in swap line agreements in the time window 2002-2016. As we can see, 2009 represent a turning point/ is a decisive moment on the trend. PBoC has strongly extended its swap line network. By December 2008, there were just 6 agreement standing, today that number have reached at least 40 agreements, going from a total value of 16.5 billion USD to 550 billion USD in total.



Figure 6<sup>55</sup>

<sup>55</sup> Zhang et al (2017) "The Effect of RMB Internationalization on Belt and Road Initiative: Evidence from Bilateral Swap Agreements" *Emerging Markets Finance and Trade*, (2846/2857)

## Chapter 2

### Sino-Sri Lankan economic relations

In the next chapter I will illustrate the Chinese engagement in Sri Lanka, the magnitude, the nature and the impact of Chinese-backed projects. But if Chinese interest in countries like Venezuela was the rich resource of oil, what is the Chinese angle in Sri Lanka ?

An interesting paper published by the Institute of Peace and Conflicts Studies (IPCS) by N. Manohran, senior fellow at Vivekananda Foundation<sup>56</sup> argues the Chinese strategy towards India, in which Sri Lanka play a geo-strategic and geo-political role.

According to this paper, China's strategy revolve around 3 principles: encirclement, envelopment and entanglement. In which 'Encirclement' stands for intensification of Chinese presence in neighbouring countries of India (Tibet, Pakistan, Nepal, Sri Lanka, Bangladesh, Myanmar, all countries involved in the BRI ). Envelopment calls for economical integrations of the above mentioned countries with the Chinese economy. Finally entanglement is, exploiting India's concerns and weakness.<sup>57</sup>

Brautigam D.,(06 Dec 2019).”A critical look at Chinese ‘debt-trap diplomacy’: the rise of a meme” provides a more international possible reason for the Chinese interest in Sri Lanka. The alleged debt-trap diplomacy, which claims that China seeks to gain influence over countries by granting unsustainable loans, so that when the reception country can no longer repay the debts China exploit the situation to secure either raw materials or strategic assets. The debt-trap diplomacy in turn is associated with the geopolitical concept of a String of Pearls. It was first used in 2005 in a official US government document, a report on Energy Futures in Asia produced by Booz Allen Hamilton for the US Department of Defence.<sup>58</sup> According to this concept, China is developing a chain of commercial and military facilities along the way of maritime commercial routes (see picture 7). Again according to this theory, there is also a political and economical design in encircling India

---

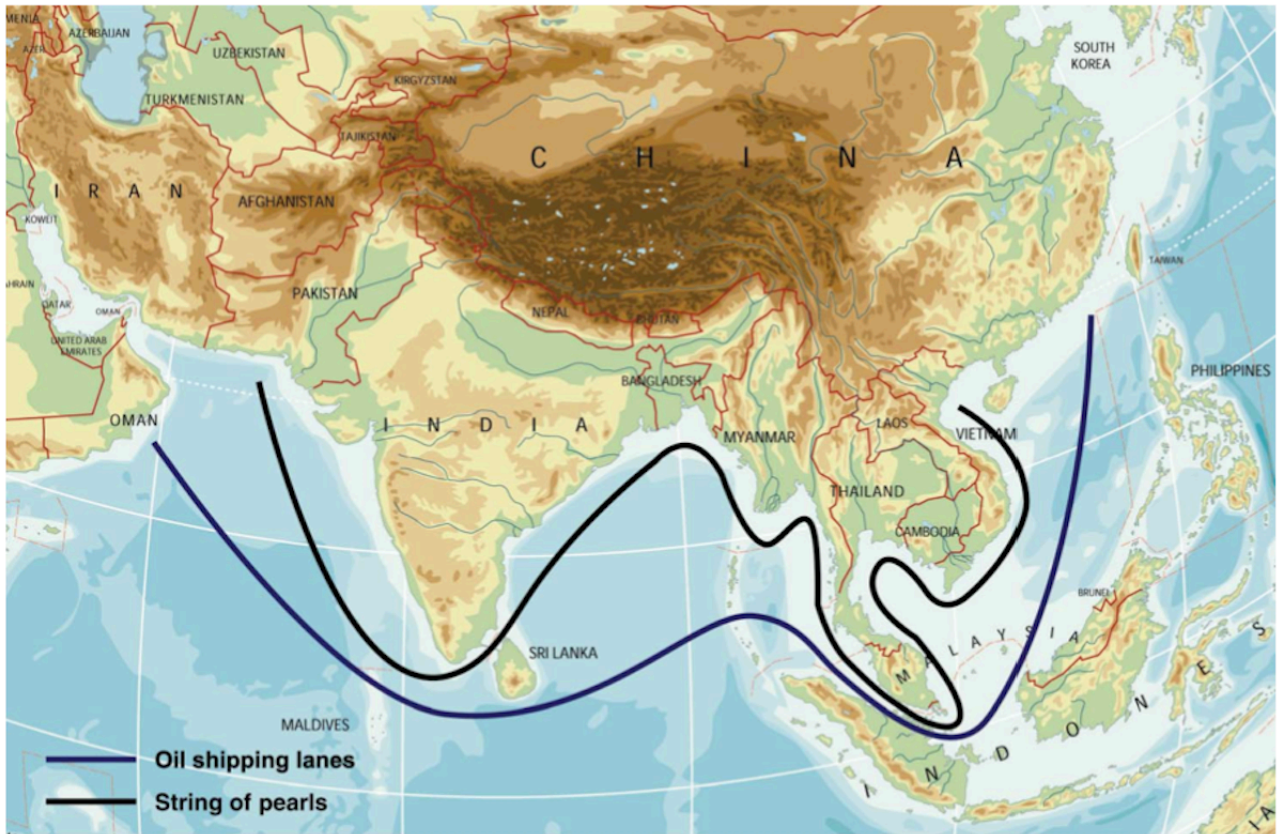
<sup>56</sup> The Vivekananda International Foundation is an Indian public policy think-tank. It is considered to be aligned to right-of-centre in its policies. Wikipedia

<sup>57</sup> Manohran N., (07 May 2013) “ China and its Peripheries: Beijing and India-Sri Lanka Relations “. IPCS - China Research Program (CPR) (1/6)

<sup>58</sup> The Washington Times ( 17 Jan 2005).”China builds up strategic sea lanes”

and threatening its national security. The lease of Hambantota Port perfectly seems to perfectly fits this narrative. But not all scholars agree with this theory.

Figure 7<sup>59</sup>



<sup>59</sup> Samaranayake N. (2011) Are Sri Lanka's Relations with China Deepening? An Analysis of Economic, Military, and Diplomatic Data, *Asian Security*. (121/146)

In order to understand the Sri Lanka-China relationship and the boom in development infrastructure in Sri Lanka under the Rajapaksa ‘‘regime’’, a short timeline of the changing political situation is provide.

- 19 Nov 2005 - 09 Jan 2015: [Warm period]Mahinda Rajapaksa Presidency, with Ratnasiri Wickremanayake as Prima Minister.
- 09 Jan 2015 - 18 Nov 2019: Maithripala Sirisena Presidency, with Ranil Wickremesinghe as prime minister.
- 26 Oct 2018 - 16 Dec 2018: [Constitutional crisis] President Maithripala Sirisena replaced Ranil Wickremesinghe appoint the ex President Mahinda Rajapaksa as new prime minister, on the 16th of Dec 2018 Ranil Wickremesinghe was sworn back-in as Prime Minister, the 5th time in his political carrier.<sup>60</sup>
- 18 Nov 2019 - Ongoing : Gotabaya Rajapaksa presidency (Mahinda Rajapaksa’s brother) with Mahinda Rajapaksa as prime minister.

Under Mahinda Rajapaksa’s presidency, from 2005 to 2015 China and Sri Lanka entered into a close relationship.China supported Rajapaksa’s government during the final stage of the 26 year long civili war against the Tamil Tiger [also know as Liberation Tigers of Tamil Eelam (LTTE)]. China prefers to cooperate with fellow small-coalition autocratic government than with unpredictable democracies. In 2014 Chinese president Xi Jinping shifted the nature of the two countries relationship by adopting personal diplomacy, Xi Jinping directly called Mahinda Rajapaksa to express his hope to further strengthen ties between the two countries. On the 16th of September 2014 Xi Jinping visited Sri Lanka for the first time becoming the first Chinese president to visit Sri Lanka.

China-Sri Lanka close relation deeply influenced Sri Lanka-India relationship. The intensity of Chinese investments and the strengthening of relationships between China and Sri Lanka made India anxious. Ever since India became and independent country, It has always cooperated with the neighbouring Colombo government. India even provided military support in the 26 year long civili war that claimed more than 70,000 lives from all parties involved. The conflict started in 1983, India intervned in 1987 alongside Sri Lanka’s military force but backed off following the assassination of Prime Minister Rajiv Gandhi in 1994. In more recent years India’s biggest fear

---

<sup>60</sup> Daily Mirror (16 December 2018) ‘‘Ranil sworn in as Prime Minister’’

have been that Sri Lanka could host a Chinese foreign base for the People's Liberation Army (PLA) [the regular armed forces of the People's Republic of China (PRC)]. What had been anxiety became more concrete when in 2014 a Chinese nuclear submarine visited Sri Lanka which persuaded Indian Prime Minister Narendra Modi to boost ties with Sri Lanka in order to ensure and regain major influence in the Indian Ocean region (IOR).

The 2015 Sri Lankan election won by Maithripala Sirisena leader of the opposition, supported by Tamil and Muslim minority and clearly favoured by India, brought a pro-indie stance. The newly elected president, Maithripala Sirisena and his Prime Minister Ranil Wickremesinghe began halting Chinese development projects proving a newly found connection with India.

Both side demonstrated the mutual commitment to each other, Indian Prime Minister Narendra Modi, visited Sri Lanka in 2015 and 2017, in the same year Sirisena's government rejected the request for a second visit by a Chinese submarine. The Indian government even offered to purchase the economically struggling Hambantota airport (MRIA) named once as "*The World's Emptiest International Airport*" by Forbes. According to Sri Lankan media in a MoU signed between Sri Lanka and India, there was an intent to let the Indian Adani Group start operating in the Terminal<sup>61</sup>, (more recently medial also reported that the America Vector Spark Air announced that it plans to begin flights in February 2021.<sup>62</sup>) However under the burden of dealing with the huge debt left by the previous government, Sirisena's government was not able to fully embrace India and Reject China. The Chinese worked carefully to soften the new leadership antipathy. In late July 2018 a ceremony was held marking the start of construction of a Chinese-funded kidney hospital in President Maithripala Sirisena electoral district Polnaruwa. China's President Xi also offered 2 billion RMB<sup>63</sup> development grant as a gift to be utilized for any project of President Sirisena wish. Later on it was announced that the money would have been invested in the construction of houses in all the electorates in the country. The 'gift' came at a time when Chinese firms was facing heavy criticism in Sri Lanka following allegation of financing the last election campaign of former President Mahinda Rajapaksa.<sup>64</sup>

---

61 LankaCNews (08 November 2020) මන්නල ගුවන්තොටුපොළ ඇමෙරිකාවට..? මන්නල මෙහෙයුම් අරඹන බව ඇමරිකා සමගමක් කියයි.. (Sinhala)

62 AirwaysMagazine (28 Sep 2020) "Spark Air Plans 2021 Launch in Sri Lanka"

63 Reuters Staff (22 Jul 2018) "China's Xi offers fresh \$295 million grant to Sri Lanka"

64 Myers, L. (November 17, 2020). The Limits of China's Influence in Maritime South Asia: Sri Lanka's Foreign Policy Rebalance.

According to an article of The New York Times by Maria Abi-Habib which had access to document from an active governmental internal investigation, Chinese Ambassador broke diplomatic norms and lobbied voter in order to keep in office the Sri Lankan counterpart President Rajapaksa. Between late December 2014 and January 2015, large payments started flowing toward the president's circle. At least \$7.6 million was traced back to bank accounts of Chinese SOE China Harbor company, this is not an allegation, ownership of the account was verified. Moreover, at 10 days from poll to be opened, another \$3.7 million was distributed in checks, invested in campaign promotional merchandise and gifts. \$38,000 was donated to a popular Buddhist monk publicly supporting President Rajapaksa's re-election.<sup>65</sup>

Politically speaking, at the time Sri Lanka's government was internally divided, President Sirisena newly founded endorsement of the Chinese financial assistance was clashing with the Prime Minister Wickremesinghe efforts to maintain a balanced relationship with the neighbouring Indian government. Shortly after the Sri Lankan Prime Minister's visit to India, President Sirisena unexpectedly discharged Wickremesinghe to appoint the previous pro-China President Mahinda Rajapaksa as new Prime Minister. Wickremesinghe refused to accept the dismissal, stating that it was illegal and unconstitutional. But Sirisena, promptly prorogued Parliament and appointed a new Cabinet of Ministers, creating a parallel government to the one operational in the country at the time.<sup>66</sup> A series of event referred to as *'somewhere in between House of Cards, Game of Thrones and Shakespeare's darkest Roman plays'* by the BBC.

The Sri Lankan people took the streets in protest demanding the reinstatement of Wickremesinghe with the rest of the parliament. The matter ended up in front of the and on 13 December 2018 unanimously ruled the actions taken by President Sirisena were unconstitutional and illegal.<sup>67</sup> Following the SC ruling, Rajapaksa backed down and Wickremesinghe was re-appointed Prime Minister. Sirisena stepped down as president on 18 November 2019 following the 2019 presidential election that saw Mahinda Rajapaksa's brother Gotabaya Rajapaksa win the elections as new President of the country. But why going to such an extent in order to keep the Chinese engaged to the countries development financing ?

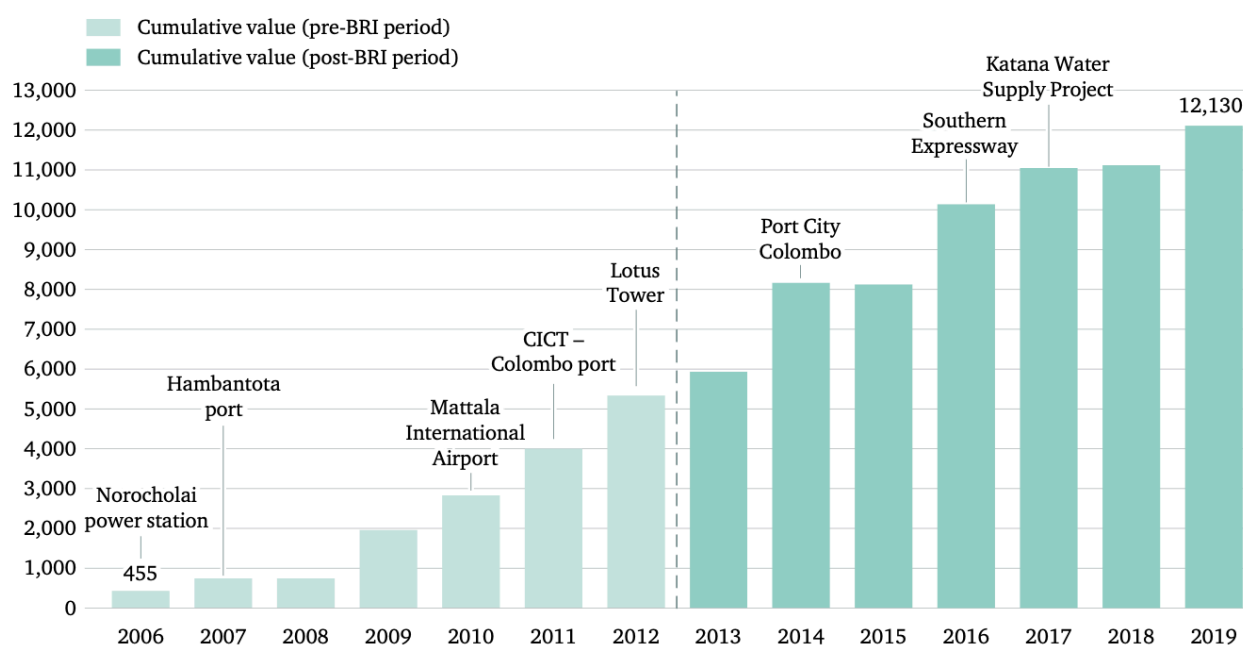
---

<sup>65</sup> Abi-Habib, M. (June 25, 2018) "How China Got Sri Lanka to Cough Up a Port" The New York Times

<sup>66</sup> Maithripala Sirisena - Wikipedia

<sup>67</sup> Daily Mirror Lk (13 Dec 2018) "SC rules dissolution of parliament illegal"

As mentioned before, Mr Rajapaksa was elected in 2005 and presided over the last years of the civil war. During this period, Sri Lanka became increasingly isolated from major western powers due to accusations of human right abuse. Following these accusation the United Nations Panel set up by the UN Secretary General in June 2010, came out with a report in April 2011 strongly criticising the Sri Lankan war efforts. Gruesome details of the army excess were televised in June 2011 by UK's Channel 4, soon after that China came to the rescue of Sri Lanka demanding the international community to focus on helping Sri Lanka to develop a favorable environment, bring stability, economic growth and to avoid taking actions that could further complicate the country's situation. However a year later on March 22, 2012, the US passed a resolution on Sri Lanka, at the 19th session of the UN Human rights Commission, urging Sri Lanka to take action to ensure justice and equity to all Sri Lankans. India supported the resolution, which the Sri Lankan government considered it as an effort against the country. As a veto-wielding member in the United Nations, Beijing effectively shielded Sri Lanka and played its cards well in order to stay engaged with the Rajapaksa government. <sup>68</sup>

Figure 8<sup>69</sup>

## 2.1 Norochcholai Coal Power Plant

The first major Chinese-funded project initiated under Rajapaksa's rule is the \$1.35 billion

<sup>68</sup> Behuria, A. K. (2018). How Sri Lanka Walked into a Debt Trap, and the Way Out. *Strategic Analysis*. (170/178)

<sup>69</sup> Wignaraja, G., Panditaratne, D., Kannangara, P., Hundlani, D., (MAR, 2020) Chinese investment and the BRI in Sri Lanka. *Asia-Pacific Programme*. (4/36)

Norochcholai Coal Power Plant in Puttalam also known as Puttalam Power Plant, in fact this project was co-financed, the Sri Lankan government also provided funding. The loan granted by the Chinese in 2006 came from Chinese Exim Bank, a concessional loan with a 2% interest rate, 20 years maturity and a 5 year grace period.

The project emerged as a longer-term solution to the country's electricity supply problems.

Despite strong protests from civil society and environmental organizations, which expressed their concern about the negative effects on health and environmental impacts of coal power generation.

However the project began in 2006, China Machinery Engineering Corporation began construction and built the power plant in three phases, each with a 300-megawatt capacity. The construction took 7 years to be completed. Allegedly the Chinese company used poor and low-quality materials in the plant, which led to breakdowns on several occasions, resulting in financial losses for Ceylon Electricity Board (CEB) which runs the plant. Reportedly the plant employs 900 Chinese engineers, welders and fitters, with the assistance of only a few Sri Lankans.<sup>70</sup>

The Norochcholai power station is now the largest power station in the country, in 2018 it supplied 33 per cent of total Sri Lankan power generation, it's today a significant contributor to the country's electricity supply.

Notwithstanding the positives described above, in 2018 the civil society erupted in protest again denouncing that the effects of carbon emission caused by the construction and ongoing operations of the Norochcholai power station on the livelihoods and health of nearby residents. *“Fine ash particles emitted from the Norochcholai power station, which are linked to chronic illness in humans and animals, have been found in Colombo, 145 km away. The Norochcholai power station is located in the Kalpitiya peninsula, an area home to a variety of marine life including dolphins and whales. It is also 50 km from Wilpattu National Park, the country's largest national park, which is home to Sri Lankan elephants and leopards, among other diverse fauna and flora.”* Wignaraja, G., Panditaratne, D., Kannangara, P., Hundlani, D., (MAR, 2020) Chinese investment and the BRI in Sri Lanka. Asia-Pacific Programme.

The Sri Lankan Supreme Court is looking into the accountability of the recipient country's responsibility to ensure the implementation of local environmental laws and standards.

---

<sup>70</sup> Kannangara A. (21 Nov 2010) “Norochcholai coal power project to be opened in January” [sundayobserver.lk](http://sundayobserver.lk)



## 2.2 The Magampura Mahinda Rajapaksa Deep Sea Port ( Hambantota Port)

Beragama in Hambantota district, is a small fishery village in the remote southern part of Sri Lanka, where villagers mostly use old bicycles to get around and where the village temple located at the highest point of village is the nerve centre. President M. Rajapaksa who is from Hambantota, after his election in 2005 envisioned to make Hambantota into an Indian Ocean Trade, investment and service hub. The president wanted to bring economical growth and industrialization to the area.

Initially Sri Lanka tried to get Indian companies to invest into the project and build the port, but as Mr Meon former Indian foreign secretary said, Indian companies all said no to the proposal for the construction of the new port, since they did not see it as a profitable project. Sri Lankan officials also questioned the wisdom behind the proposal to construct a second major port when the main port in Colombo, the capital, was thriving and had room to expand. The Sri Lankan government commissioned feasibility studies that concluded that the project was not viable. At the height of president M. Rajapaksa's rule, the president and his three brothers controlled many government ministries and around 80 percent of total government spending. Governments like China negotiated directly with them, eventually president M. Rajapaksa green-lighted the Hambantota Port project.

The construction of the port was entrusted to China Harbour Engineering Company (CHEC), the same contractor became involved with the area in 2004 when after the devastating tsunami Sri Lanka received foreign aids which were used to rebuild the affected area, in particular CHEC was chosen to implement the rebuild of the artisanal fishing port in Hambantota, as international development consultant Xiao'Ou Zhu said in a Podcast<sup>71</sup> regarding the BRI, the CHEC saw the great potential that the port had to become a major international commercial port. When CHEC completed the restoration officially handed a proposal to develop Hambantota port into a major international commercial and transport port to the Sri Lankan government.

Construction of the port started in January 2008. The first phase of the project was providing bunkering, ship repair, ship building facilities and crew change facilities. The second phase's target was increasing the port capacity to 20 million TEUs per year (the twenty-foot equivalent unit abbreviated TEU is an inexact unit of cargo capacity, often used for container ships and container

---

<sup>71</sup> The Belt and Road Podcast. 3: A History of the Hambantota Port in Sri Lanka - The Importance of Chinese State Owned Enterprises and Host Country Elite Politics in the Belt and Road - Xiao'Ou Zhu

ports). When completed it would have had the potential to serve as the central transshipment hub both between East and South Asia, and West Asia and Europe.

The project received 5 loans from 2007 to 2014, the first phase was financed by China EXIM bank, the \$307 million commercial bank came at a fixed interest of 6.3% ( Sri Lanka was offered both options, variable rate and fixed rate, but Sri Lankan government opted for fixed rate since rates appeared to be increasing at the time). In 2010 a second loan came from China EXIM bank this one came at concessional terms with a 2% rate. The total sum of these loans amount to \$1.263 billion. Two loans collectively worth \$357 million came at commercial rates, while the rest of the loans for the Hambantota port project were concessional.

President M. Rajapaksa's wanted to mark his 65th birthday with a grand opening of the port, so in 2019 the project received a big push, Chinese workers began working day and night in order to accelerate the process to get the port ready. This is when a flaw in the design of the project was revealed, studies of the Hambantota port failed to detect a large boulder, it was discovered when the workers dredged the land and then flooded it to create the basin of the port, the boulder partly blocked the entrance, preventing the entry of large ships, like oil tankers, what precisely the port's business model relied on in order to achieve fast growth and repay the debts of the construction.

Work on the port moved ahead anyway, and in Nov. 18, 2020 the Hambantota port opened in an elaborate celebration on the occasion of the president's birthday. But then it sat waiting for business, with the boulder still preventing large ships to enter the port. The year later CHEC blasted the boulder at the exorbitant cost of \$40 million, which raised concerns about either China overcharging the country exploiting the relationship of dependence or that the price tag included kickbacks to president M. Rajapaksa.<sup>72</sup> In 2012, with tens of thousands of ships passing along one of the world's busiest shipping lanes, the port only attracted 34 ships, compared with the 3,667 ships that chose the Colombo port in the same year. The port was clearly struggling to attract business, at the same time construction costs were rising.

Determined to keep expanding the port, president M. Rajapaksa went back to the Chinese asking for \$757 million. In order to promote the Hambantota port, later that year the Sri Lankan government decreed that ships carrying imported cars bound to Colombo had to reroute to the new port.

---

<sup>72</sup> Abi-Habib, M. (June 25, 2018) How China Got Sri Lanka to Cough Up a Port. (6/10)

In 2013, the port drew 161, increasingly in 2016, that number went up to 281 ships, yet way below the potential capacity of the new port, it is at this point that some argued that the Sri Lanka government was lacking a consensus strategy to attract business to Hambantota. Chinese analysts still believe in the potential of the Hambantota port.

Under President M. Rajapaksa's rule, the country debt, as a percentage of GDP went from 68.7% in 2012 to 79.9%, an increase of 11.2%.<sup>73</sup>

The rising debt and project costs, handed Sri Lanka's political opposition represented by Maithripala Sirisena a powerful political tool and it campaigned heavily on suspicions about China. President M. Rajapaksa was voted out of office in 2015, and substitute by President Sirisena. The new government, came to office with a mandate to scrutinize Sri Lanka's financial deals. The new government was eager to reorient Sri Lanka towards its historical international partners, India, Japan and the West, but under the pressure of the inherited debt soon realized that no other country to provide the money flow that China provided. Finance minister Ravi Karunanayake said "*We did keep taking loans, ... A new government can't just stop loans. It's a relay; you need to take them until economic discipline is introduced.*" Nishan de Mel, an economist at Verité Research estimated that at that point Sri Lanka owed to china as much as 5\$ billion. The new government struggled to make payments on the debt taken on. Government officials began meeting in 2016 with their Chinese counterparts to strike a deal, after months of negotiations with the Chinese, "*the country's enormous debt burden forced the handover of a majority stake in the Hambantota Port in 2017*"<sup>74</sup>, with an addition of 15,000 acres of land around the port for 99 years . The 15.000 acres of land around the port were handed over because the Chinese argued that the equity share was not worth the \$1.1 value of its equity. (Some source refers of a 70% equity of the port, some others suggest a much higher share such as 85%) The transfer gave China control of territory just a few hundred miles off the shores of a rival, India, and a strategic foothold along one of the most used commercial lanes and military waterway.

---

<sup>73</sup> Behuria, A. K. (2018). How Sri Lanka Walked into a Debt Trap, and the Way Out. *Strategic Analysis*, (173/178)

<sup>74</sup> Myers, L. (November 17, 2020). The Limits of China's Influence in Maritime South Asia: Sri Lanka's Foreign Policy Rebalance

The Hambantota handover is one of the most vivid examples of China's ability to use of loans and aid to gain influence in developing countries, it also demonstrate the willingness to play hardball to collect. The deal also intensified some of the harshest accusations about President Xi Jinping's signature Belt and Road Initiative, since even though the port construction started before the BRI was announced, the Chinese government folded the Hambantota project into the global program. Shortly after the hand over ceremony, China Xinhua News official account on twitter posted a boastful video proclaiming the deal as "Another milestone along path of [#BeltandRoad](#). Sri Lanka officially hands over southern port of Hambantota to China on 99-year lease"

Figure 9<sup>75</sup>



<sup>75</sup> China Xinhua News's post on the Hambantota Port lease

For India, the Chinese maneuver was only the final result of what China have planned from the begging in Sri Lanka, a strategic foothold in the Indian Ocean Region. Chinese officials have insisted that that China's interest in the Hambantota port is purely commercial, but Sri Lankan officials have confirmed that, the intelligence and strategic possibilities of the port's location were part of the negotiations from the begging.

The original agreement of the port handover left open whether the port and its surrounding could be used by the Chinese for military purposes, Indian official asked Sri Lanka to explicitly forbid such use. In the final agreement the Indian request was meet, it clearly bars foreign countries from using the port for military purposes unless granted permission by the government in Colombo. The Indian request had solid grounds, the request did not come out of anxiety, in 2014 China Harbor was building a new terminal in the Colombo port , known at the time as Colombo Port City. Along with that deal came roughly 50 acres of land, solely held by the Chinese company, that Sri Lanka had no sovereignty on.

On day that Prime Minister Shinzo Abe of Japan was visiting Colombo, accidentally a Chinese submarines docked at the harbour in what was seen across the region as an act of military force from Beijing.

The Hambantota deal, have resulted in mass protests over concerns that Sri Lanka's sovereignty was infringed upon. Vimalabudhi Thero, the chief monk at the temple of Beragama was in the forefront of public protests against the creation of an investment zone in the handed over 15.000 acres, protests ultimately stalled the plans despite the port handover going through.

On November 18, 2019, president Mahinda Rajapaksa's brother Gotabaya Rajapaksa won the presidential election and brought back to power the family to rule the country. After his election Gotabaya Rajapaksa publicly declared that he wanted to renegotiate the Hambantota port deal to ensure greater local control. He also promised to review terms of all loans. China has shown signals that it is willing to consider the new government's request on Hambantota. <sup>76</sup>

Either because of media manipulation in order to fit the western debt-trap narrative or for the absence of publicly available documents, often it's believed that the Hambantota port handover was an equity swap to cancel the debts occurred for the port construction. Umesh Moramudali is an

---

<sup>76</sup> Myers, L. (November 17, 2020). The Limits of China's Influence in Maritime South Asia: Sri Lanka's Foreign Policy Rebalance

economic researcher focusing on public debt dynamics and economic development in Sri Lanka. He holds an M.Sc in Economic at the university of Warwick. In multiple article written for the The Diplomat, Umesh tries to shed a light on the hambantota port deal. I personally questioned him at a Q&A session held as part of one of the meetings of the SAIS-CARI 7th Annual Conference on China's Overseas Lending in Comparative Perspective. I found out that Moramudali was able to access original documents of the Hambantota port construction through the Right to Information Act by submitting multiple request to relevant ministries. According Moramudali, the Chinese \$1.2 billion in exchange of 70%<sup>77</sup> equity share was NOT used to pay off the debt obtained to construct the port. Moramudali, argues that the debt servicing cost to the loans obtained from China Exim Bank in order to construct the Hambantota port did not amount to much, in fact it only amounted to less than 5% of the country's total foreign debt, since each loan obtained from China Exim Bank had a grace period of around five years and a maturity of at least 15 years. Some loan repayments have not even started yet. The Sri Lankan government has taken temporary measures to deal with the reduced foreign reserve by focusing on import restriction, this restriction came into force in March 2020. As a consequence, in 2020 imports were reduced by approximately \$3.9 billion (a 20% reduction compared to the total import of 2019).

This significant amount of money obtained through leasing Hambantota port, an important inflow of foreign currency (USD) was used to strengthen the country's foreign reserves and make some short-term foreign debt repayments. The ongoing pandemic have heavily effected the country's foreign reserve, one of the reason can be traced back to the county growing mismatch between forex inflows and outflows resulting in foreign reserves to run dry. One of the main reasons for the county's foreign reserve to go dry is due to the maturity of international sovereign bonds (ISBs) in early 2019. ISBs have a payback period of 5-10 years with an annual interest rate above 6 percent to be paid biannually. When an ISB matures, foreign debt repayment requirements skyrocket, resulting in a large foreign currency outflow. I will provide a complete analysis on the Sri Lanka economical situation in the conclusions.

---

<sup>77</sup> Moramudali, U. (January 01, 2020). The Hambantota Port Deal: Myths and Realities . Untangling the truth about Chinese debt and Sri Lanka means cutting through some misleading media narratives.

### 2.3 The Mattala Rajapaksa International Airport

The Mattala Rajapaksa International Airport (MRIA) or Mattala International Airport (MRI) [AITA code (HRI)] is the infamous ‘‘ World’s emptiest international airport ‘’<sup>78</sup>. Wade Shepard is the author of the article that came up with name tag ‘‘ World’s emptiest international airport ‘’, Shepard is a contributor of Forbes, he travels the New Silk Road and report on the developments of projects involved in the BRI along his journey. The article mentioned above was published in May 2016.

The Mattala International Airport began its activity in March 2013, and it is one of the major Chinese-backed project built in Sri Lanka under the Rajapaksa’s rule of the country. The first phase of the construction of the airport costed \$209 USD million, of which \$190 USD million was provided by Exim Bank of China in the form of loans. In an interview the then Prime Minister Jayaratne D. M., said that the loan came with a 20 years maturity with a five-year grace period.

*‘‘We have five years to start earning revenue,’’ Jayaratne said.*<sup>79</sup>

When it comes to the interest rate, according to a statement made in September 2013 by the then Minister of ports and highways, the interest rate for the loan to build the Mattala airport had been increased from 1.3 per cent to 6.3 per cent. But no further details were provided nor at the time or later on.<sup>80</sup>

The first phase have been carried out by China Harbor Engineering Company, in its first airport construction project. Construction began in 2009 and the first phase of the construction was completed in 2012.<sup>81</sup> The second phase to be completed by 2015 was financed by another concessional loan of \$100 USD million coming also from Exim Bank of China. China Harbor Engineering Company was also involved in the implementation of this second phase.

*‘‘It is a really beautiful building’’*

One might think that this sentence could refer to an architectural landmark, or a famous tourist attraction, but it is not. Shepard’s article ‘‘ The Story Behind The World's Emptiest International Airport ‘’ came after he visited the airport. When Shepard visited the airport it still had scheduled flights, a daily flight operated by Fly Dubai and a weekly flight operated by Abu Dhabi’s Rotana.

---

<sup>78</sup> Shepard W. (May 28, 2016). The Story Behind The World's Emptiest International Airport -Forbes.

<sup>79</sup> Abeywickrema M., I., (May 12, 2013) Concerns Over Mattala Performance - The Sunday leader

<sup>80</sup> Debasish R., C., (29 Mar, 2015). Passive investor to partner in crime: How China lost the plot in Sri Lanka. South China Morning Post.

<sup>81</sup> EXIM Bank loan for Mattala Rajapaksa International Airport - Project ID 33369 - AidData

But later on in June 2018 both carriers ceased operation. SriLankan Airlines, the country's flagship carrier started gradually building up a flight schedule in Mattala, and operated a hub at MIA, up until 2015. Later on, it was revealed that SriLankan Airlines had been pressured into operating the hub by president M. Rajapaksa who had strategically positioned his brother in law as chairman of the company. The decision of SriLankan Airlines came soon after the election of the country's new President Maithripala Sirisena, Sirisena coming from the country's opposition attracted vast public support by harshly accusing Rajapaksa of corruption, and of spoiling relationship with India and the West, as well as accusing Rajapaksa of selling the future of young generation to the Chinese.

Sirisena had vowed that if he had won the election he would have stall all necessary and resource wasting Chinese-backed projects. When he came to power in early 2015 he delivered what he had promised to his electors. As one of his first motions as president he allowed SriLankan Airlines to dismantle the hub it was running at MIA.

The day Shepard arrived at MIA he encountered a group of tourist gathered up in front of the International Airport and when he asked the reason why they were there, they told him they were there to visit the airport, it was then that one of them said '*It is a really beautiful building*'.

Once paid the negligible admission fee, Shepard accessed the Airport and describes it as a landmark, a stunning fully modern airport, with a great hall naturally brightened by massive windows representing a sign of progress in region it was built.

Mattala International Airport, was not just beautiful, it was a fully functional airport, extending on an 10.000 square meter; a duty-free area of approximately 92.000 square meter; 12 check-in counters with inline baggage screening; 20 immigration desks; three lounges; two contact gates; two passenger boarding bridges and a runway long enough to handle the largest commercial flights like the A380 and a capacity for handling one million passengers per year.

[Note: Venice VCE airport for example only started handling A380 aircrafts in late 2020 after the completion of renovation adapting the airport infrastructure for long-haul aircraft operations (Airbus A380).]<sup>82</sup>

On his visit Shepard interviewed a manager of the airport. The manager told him that when the airport opened its door it had seven scheduled flights per day, two daily scheduled flights for Colombo, which were always full, not even the crew member could book a seat, they were fully packed.

---

82 Dal Ben M., Stramazzo V., (02 Jan, 2020) Riqualfica per l'aeroporto Marco Polo di Venezia <https://www.stradeautostrade.it/aeroporti-e-hub/riqualifica-per-laeroporto-marco-polo-di-venezias/3/> [Italian]



According to Attanayake (2018)<sup>83</sup> Sri Lanka's government had been considering the idea of a second International airport ever since 1971, airports are known to be key infrastructure to boost a country's economy, since they play a vital role in linking international trade and facilitate the development of the tourism industry helping local economies to thrive through the inflow of new financial means.

MIA was conceived with these objectives :

- 1) To function as an economic catalyst bringing economical development to the southern part of the country.
- 2) Provide a boom in the tourism industry through linking the area with the highest tourist interest.
- 3) Reduce pressure on BIA airport in Colombo since its limits in expansion due to its location (surrounded by the Negombo lagoon and the Indian ocean.)

For most the prime objective was to serve as an alternative to the congested Bandaranaike International Airport (BIA) by diverting part of the air traffic to a second air transport link. Secondary the development of the airport was part of a broader plan, the original idea was to turn Hambantota into an international trade and commerce center. Full of joint ventures, FDI, Hotels, golf course, convention center and everything a modern city in the West has. The international airport should have worked in combination with the nearby Magampura Mahinda Rajapaksa Deep Sea Port commonly known as the Hambantota Port, a world-class cricket stadium, and housing developments.

### **2.2.1 The Mattala International Airport location**

The Mattala International Airport is located in the southern part of the island, 250 km away from Colombo, in the Hambantota district, home region of Mahinda Rajapaksa. The airport is located in the middle of a forested area.

Shepard in his article claims that “ *The reasons why Sri Lanka chose such an unlikely place for this new urban conurbation, rather than further developing an already established city, was the simple fact this was the home region of then-president Mahinda Rajapaksa.*”.

---

<sup>83</sup> Attanayake C.,(20 Dec 2018) “ Mattala: Attracting Business into a Lonely Airport  
 ‘‘ ISAS Working Paper No.314 (11/11)

A paper published by the Institute of South Asian Studies written by Attanayake C. informs us that unknown to the rest of the world, the Sri Lankan government has evaluated nine sites in different part of the country between 1971 and 2006 to build a new international airport. However Attanayake neither finds evidence of a proper comparison among sites, nor evidence of international standards being taken into consideration in selecting the location for the Mattala International Airport. The airport have had serious problem related to wildlife, frequent movement of wild elephants was reported around the airport. Originally the location where MIA stands today was an elephant corridor between the two national parks nearby the airport. The Environmental Impact Assessment (EIA) has identified this as potential to boost tourism. But it failed to identify the issues that could rise from wild animal movement in relation to the airport activity.

Later on, once the airport was operating the involvement of wild animal become one of the key factors to made MIA uninviting to most of the airlines. The first bird strike was reported during a SriLank airline test flight, a news that was widely covered by media at the time, which was perceived as the first alarm bell by airlines. But it has not only been birds, elephants movements have been reported around the airport. In this matter Peiris O., V., (15 Jun 2019)<sup>84</sup> work can give us more insight and a better understanding in the involvement of wildlife animal.

### **2.3.2 The issue in relation with wildlife**

Environmental Impact Assessment (EIA) it is a tool used to asses the environmental and other impacts of a development project. In Sri Lanka the Central Environmental Authority (CEA), has a critical role in administering EIA process. EIA is used for projects involving different ministries, highly polluting industries and special projects in environmentally sensitive areas. EIA was carried out for the MIA project in 2008-2009 due to the nature of the project and to the close proximity to sensitive wetlands. Mattala was eventually approved as the location for the MIA project. Absurdly the fact that the airport was going to be built in the middle of nowhere played in its favor since it would not have had a negative impact on the livelihood of the area. While as mentioned before the proximity to national parks was considered as potential to attract tourists interested in the eco-tourism and adventure tourism.<sup>85</sup> Once the airport had been built and report started to making

---

<sup>84</sup> Peiris O., V., (15 Jun 2019) Evaluation of Post Impacts of Second International Airport in Sri Lanka with reference to the Environmental Impact Assessment Process

<sup>85</sup> Ibid. (77/83)

headlines about bird strike and the presence of elephants on the ground of the airport, it was clear that the qualitative analysis used in the EIA did not take into consideration the scientific aspects related to wildlife behaviour.

The airport faced the following issues:

- 1) It was unable to develop parallel infrastructure to meet the demand of visitors such as public transportation or affordable accommodation for early flights.
- 2) Conflicts with wildlife. (Elephants & Birds)

The area surrounding the MIA is a popular destination for migratory birds, birds presence was supposed to fall in relation to the airport operation (noise pollution and light pollution). The reason why bird presence not falling have to do with the rich presence of water resources and nesting ground in the area. Many airlines took this as a real and important threat both to their aircrafts and more importantly for the safety of their passengers. Many airlines have declined to travel to MIA and effected the expected economical performance of the costly project. The second major issue was related to the elephant movement in the area. Although it was a known fact that the location proposed for MIA was an elephants corridor between national parks, the Government went ahead with the project and by simply carrying out strategies to relocate the elephants to sites away from the location. But the adopted strategy failed since the expert failed to understand the ranging pattern of the elephants. The post development monitoring study conducted upon commissioning of the airport, revealed that Mattala has a dense Elephant population with about 200 elephants<sup>86</sup>. Many of the male elephants of those who were relocated to other national parks returned within few months, Dr P. Fernando says that Elephants with a comparative higher instinct levels can easily return to the territories that they are familiar with, which is exactly what happened in the MIA area. According to the EIA performed to approve MIA, the Mattala location was approved with calculated moderate risk related to the Environment (Wildlife) and a low risk in Hazards (wildlife/birds strikes)

Table X Qualitative Ranking Method used to evaluate the alternatives of MIA geographic location decision<sup>87</sup>

---

<sup>86</sup> M. Rodrigo (Mar 18, 2013 ) “Airport in Elephant Territory opens today”

<sup>87</sup> Peiris O., V., (15 Jun 2019) Evaluation of Post Impacts of Second International Airport in Sri Lanka with reference to the Environmental Impact Assessment Process (80/88)

Figure 10 <sup>88</sup>

Primary factors affecting airport selection	Weerawila	Udamattala	Gonnoruwa	Mattala
Surrounding area & land use	High	Low	High	Low
Atmospheric conditions	Negligible	Negligible	Negligible	Negligible
Obstacles (airfield requirements)	Negligible	High	Negligible	Low
Ground access	Negligible	Moderate	Moderate	Moderate
Topography	Negligible	Moderate	High	Moderate
Environment (Wildlife)	Moderate	Moderate	Moderate	Moderate
Social considerations	High	Moderate	Moderate	Low
Aerospace Management and Air Traffic Control	Low	High	Low	Low
Hazards (wildlife/bird strikes)	Moderate	Low	Low	Low
Proximity to demand centers	Negligible	Negligible	Negligible	Negligible
Infrastructure and utilities	Negligible	Moderate	Moderate	Moderate
Land availability	High	Moderate	High	Moderate

MIA project have been criticized both by professionals and the general public mostly from the political and economical point of view which resulted in unforeseen issues related to the environment hindering the functionality of the airport itself.

Peiris O., V., (2019) provides the key scientific inputs that the MIA project failed to address both in the planning and operational stage. They can be summarised as follow:

1) Planning stage

- EIA required further analysis of wildlife behavior
- EIA analysis should have followed quantitative techniques to justify the location decision
- Scientific analysis was missing in the impact analysis to the water resources and noise impacts.
- Lack of inputs from professional bodies like Department of Wildlife Conservation (DWC) and Forestry Department (FD)

2) Operational stage

- Use of manual efforts to remove birds, elephants rather than changing the behavioral patterns

<sup>88</sup> Peiris O., V., (15 Jun 2019) Evaluation of Post Impacts of Second International Airport in Sri Lanka with reference to the Environmental Impact Assessment Process (80/83)

- Wildlife management plan and MIA implementation mechanism was so rigid which created new issues like attraction of wildlife into MIA water sources, etc.
- With the lack of economic benefits due to insufficient passenger movement, environmental management plan was stagnated.
- Conflicts between land use plan and proposed mitigatory measures for environmental impacts by MRIA

Moreover they author express that the EIA report seemed as a project justification document rather than an actual evaluation of the impact of the project to the location's environment. But since the project have been implemented, Peiris O., V., (2019) also provides recommended steps in order to minimize the negative impacts of MIA to the surrounding environment.

- Continuous monitoring of elephants in order to provide them additional corridors to let the elephants move freely while managing the aircraft movement with minimum noise levels and carefully planned day & night operations.
- Observation of the movement of birds seasonally and the introduction of alternative food and nesting sources to divert birds from aircraft pathways.
- Introduce sustainable materials for the building construction and maintain natural lighting and ventilation to reduce the lighting usage and excessive water usage in the airport premises.
- Reduce waste water and solid waste, by adopting the best possible technology to perform zero discharge levels so not to attract wildlife.

Moreover the author stress the importance of performing accurate scientific studies during the palling stare in order to save unnecessary financial resources and avoid wasting resources on non performing projects or in trying to mitigate unforeseen problematics. While Peiris O., V., (2019) focus on the wildlife impact on the project and on the negative impact of the MIA on wildlife Attanayake (2018) use a totally different approach in her work, providing data in relation to the economic performance of the airport, passenger movements and marketing strategies that could be carried out in order to attract business to the ‘‘ World’s emptiest international airport ‘’<sup>89</sup>.

---

<sup>89</sup> Shepard W. (May 28, 2016). The Story Behind The World's Emptiest International Airport -Forbes.

### 2.3.3 Mattala International Airport business model and performance

Attanayake (2018) provide further details on why MIA was build in the Hambantota district, following revolts and strikes that from time to time criticised the government due to the long term poverty and youth unemployment being major issues in the area. In response the government proposed the ‘‘ Hambantota City Development Project ‘‘ in 1994. The project included a port and an airport, both were envisioned as effort to bring economic development to the Southern Province.

Farmers from neighbouring districts, such as Moneragala, Badulla, Ampara, Bandarawela and Welimada export agricultural bumper crops (vegetables, fruit, cereal) and horticulture products through BIA, the only international airport. Given the distance from the Hambantota district and BIA and the short-term perishable nature of these products, farmers can’t fully maximise profits by exporting excess harvest, MIA was expected to eliminate the issue, letting these product reach even export markets. But despite all plans, MIA ended up a failed venture.

figure 11 Services at Mattala Airport <sup>90</sup>

Year	Total Passenger Movement		Aircraft Movement		Cargo Handling (Metric Tons)	
	BIA	MIA	BIA	MIA	BIA	MIA
<b>2013</b>	7,300,000	34,147	50,680	1,514	191,000	45,000
<b>2014</b>	7,800,000	20,474	55,228	2,984	192,000	69
<b>2015</b>	8,499,449	6,291	55,112	1,044	220,403	19
<b>2016</b>	9,337,493	6,207	64,693	1,317	253,941	327.9
<b>2017</b>	9,805,045	16,720	64,903	1,418	N/A	N/A

Note: Table X was compiled using data provided by Annual Reports from the Civil Authority of Sri Lanka and Sri Lanka Airport and Aviation Services LTD

Clearly MIA failed in its prime objective of diverting air traffic from BIA. Nonetheless, the cost incurred in keeping MIA operational continued to rise, while it only generated an income of \$0.3 million USD in 2013 and \$0.84 USD in 2014, for the same years the cost incurred for paying employee salaries, utilities and maintenance alone come up to \$ 13.28 million USD in 2013 and \$17.67 million USD in 2014. Additionally, the five ears grace period of the first loan have ended

<sup>90</sup> C. Attanayake,(20 Dec 2018) ‘‘ Mattala: Attracting Business into a Lonely Airport  
 ‘‘ ISAS Working Paper No.314 (5/11)

and despite MIA's failure the first installment of \$8.4 million USD had been paid in September 2015<sup>91</sup>

Attanayake C. (2018) as Peiris O., V., (2019) identifies those that according to her have been the reasons that led to the failure of the MIA, besides the above mentioned Hazardous nature caused by wild animal movement, she also identify issues relevant to communication, marketing, business planning, domestic politics and geopolitics which I will try to summarise as follow:

1) Lack of coordination with Airlines:

As one of the major stakeholder involved in an airport business, airlines should have been consulted both during the planning stage and thought the implementation of the project. Only a few airlines operated in the airport during its short life cycle showing a lack of confidence in the management of the MIA or a lack of agreement on MIA as a solution to mitigate the rising air traffic congestion at the BIA. The knowledge and experience brought by this important stakeholder could have been utilized by the government in the resource allocation process based on expected passenger services and type of expected air traffic from the very stage of the construction of the new airport.

2) Lack of a long-term plan for operation :

It appears that the MIA have been operated without a well-developed marketing strategy and comprehensive action plan which triggered objectives failure. The airport management only adopted ad-hoc, high-cost marketing activities, without the implementation of a proper action plan. It appears that the government expected related business to boost just by building the airport without performing the needed groundwork preparation for the related industry and attracting businesses.

3) Domestic Politics and Geopolitics :

The aggressive coverage by media in relation to the domestic politics and geopolitics brought a lot of unwanted negative publicity to the airport. The MIA, like other major infrastructure projects initiated by President Rajapaksa were assimilated under one narrative, a narrative of over ambitious projects, resource wastage, corruption and lack of transparency.

A statement released by Sri Lankan Airlines just after it took the decision to cease operation at MIA in which the company stated that MIA is not needed and it is only a distraction in its

---

<sup>91</sup> Government of Sri Lanka, Auditor's General Department, Performance and Environment Audit Division, Selection of Mattala as the Alternative International Airport of Sri Lanka and its Operations, Report No. PES/PE/MA/2015/02

effort to develop its business. The wording used in this statement and the government actions degraded the value of the airport causing irremediable damage to its image.

In addition to the country domestic politics, competition from other regional and extra-regional powers in South Asia and the Indian Ocean played against the MIA.

For instance, in 2018 the government led by Sirisena, called for national and international investor for a joint venture in order to make MIA a profitable venue. Only the Airport Authority of India (AAI) responded to the call for investors, but Sri Lanka then opposition led by ex President Mahinda Rajapaksa alleged that MIA was being offered to India to rebalance Sri Lanka's relationship with the neighbouring country. The Indian interest in investing in MIA also received criticism in India since there were concern about the financial sustainability and profitability on investing in a non performing airport since it started operation. Eventually in July 2018, the Indian Minister of Civil Aviation, denied any proposal concerning MIA, probably to ease the discontent caused by the matter in the Indian civil society. It appears to be clear that since the begging the MIA project have been overshadowed by political and geopolitical discussion. The contest of power to win over Sri Lanka's favor and have influence in the country among China, the US and India often translates into the latter criticizing every investment from China in Sri Lanka. As a result, the MIA received more publicity as a questionable Chinese investment than an airport of its own.

Weerakoon D., a researcher at the Colombo-based Institute of Policy Studies explain what is his understanding on Chinese investment model, "They take the long-term view of the engagement," "It's not two years or three years, it's ten years or twenty years." In a similar optic Attanayake C. (2018) explain that infrastructure are built upon foreseeable future needs. If build from loans, the loan pressure for repayment makes it urgent to reach a profitable operational level. The airport have been built a no matter the issues it faced, a discussion on how to make it a profitable venture is needed, in this Attanayake C. (2018) also provides steps to be taken in order convert Mia into a profitable venture, the key points involve :

- 1) Re-branding and Marketing
- 2) Services for Airlines and Passenger attraction
- 3) Non-Airline services
- 4) Business development in the area surrounding the airport



### 2.3.4 Strategies to convert Mattala International Airport into a profitable venue

The first step to be taken into converting MIA into a profitable project should be the re-brand and adopt marketing strategies. An airport bearing the name of a discussed ex president with a very negative image that only harms the airport image, moreover due to how the media have portrayed it, it carries the image of an unwanted and unnecessary airport. Rebranding should give the airport a second, and the new name should focus on the unique characteristics and services it offers. MIA has its perks, the airport has been designed to ensure ecological balance, it was built using natural renewable sources and renewable energy sources in order to reduce its carbon footprint.<sup>92</sup> The airport also uses 15% of energy needed to run the facility from natural renewable sources to reduce the carbon footprint. In an era in which climate change and sustainability are key aspects of our everyday life, those factors should be stressed and used in favor of a new image for the airport.

MIA should be promoted for its original purpose, a valid alternative to BIA and MIA's utility in reducing congestion and traffic by diverting flights from BIA to MIA should be highlighted; it should also be promoted and made available for emergency landing, aircrafts flying in the Sri Lankan flying zone have used the neighboring country's airport such as India and Maldives to perform emergency landing. The end of the civil war in Sri Lanka saw an increase in the number of aircrafts using the Sri Lankan aviation zone, this is a clear sign of a rising confidence of airlines towards the country's aviation zone. Emergency landing could bring revenue to the airport and this should be used to stimulate investors into investing on the airport.

Another strategy to attract business to the airport involves providing services to airlines, MIA already has all the relative infrastructure in place than any airport provides, ground operations, parking, fueling, and aircraft maintenance facilities. MIA is equipped with a state-of-art automated fuel hydrant system, which is a system needed in busy airports, it is of decisive importance to comply with the very limited time allocations given for refueling aircraft, large aircraft cannot be refueled through refuel trucks since they require large volumes of fuel to be filled within very short time periods.<sup>93</sup> The airport should offer services at a discount price which still guarantee earnings, it would help attracting airlines to utilize the facilities of the airport. Simultaneously, effort should be made also to attract passengers, the best way to do so would be by offering discounted tickets for passengers flying in and out from MIA by reducing the custom duty concession.

---

<sup>92</sup> 'Mattala Rajapaksa (formerly Hambantota) International Airport' Airport Technology

<sup>93</sup> FUEL HYDRANT SYSTEM AND AVIATION REFUELING TERMINAL AT MRIA, HAMBANTOTA (20 Jun, 2014 )

[Note: The price of air tickets is made up by 2 main components, the fare which is the share of money going to the airlines involved in the journey and custom duty, which is the money going to the customs involved in the journey.]<sup>94</sup>

Attanayake C. (2018) was also able to identify another potential target group that could become an important source of earning for the airport. Using data from a report from the Foreign Employment Bureau Sri Lanka, she finds that a remarkable number of people emigrate abroad for employment from districts all around the MIA. MIA being closer than BIA could become a more convenient airport to depart from, in addition in order to get all the necessary document and medical certificate there people have to travel to Colombo or Kurunegala. Many Sri Lankan migrant workers find jobs in the Middle East, according to regulation the Medical Report needed for these migrant workers have to be issued from a registered Medical Center, which are only 15 between Colombo and Kurunegala. Opening up medical facilities at MIA would have a dual function, improving the living conditions of the area and at the same time generate revenue by both the medical services and new passengers flying in and out from MIA.

Figure 12 Departures for Foreign Employment 2017<sup>95</sup>

District	Total Departures
Ampara	14,521
Badulla	4,096
Batticaloa	15,239
Galle	10,137
Hambantota	3,302
Matara	4,157
Monaragala	1,798
Trincomalee	6,369
Total	55,422
% of Total Departures for Employment	26.1

Another weak spot which need to be dealt with is finding transportation and accommodation. Shepard experienced directly how hard it is to reach or leave the airport, at the end of his visit to the

<sup>94</sup> Personal knowledge learned through 1 year working experience in the ticketing department of Lufthansa.

<sup>95</sup> C. Attanayake, (20 Dec 2018) ‘‘ Mattala: Attracting Business into a Lonely Airport

‘‘ ISAS Working Paper No.314 (9/11)

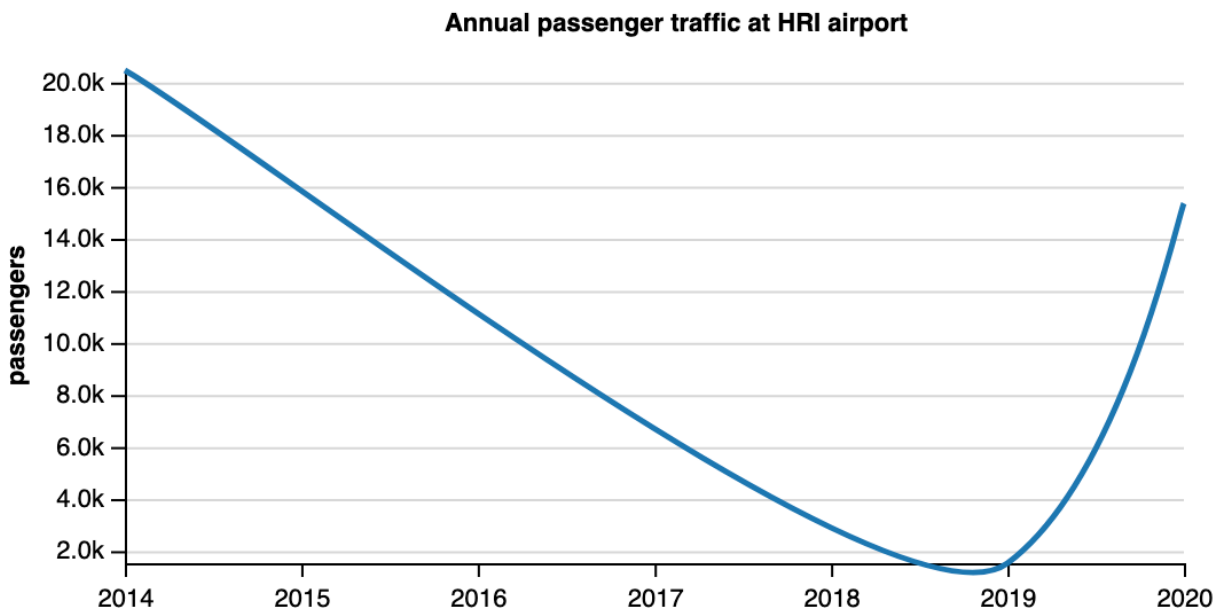
airport he asked the manager how he would recommend getting back to town where he was staying, 17 km away from the airport. The manager suggested that due to the absence of an official government buses schedule, the best option would have been walking five kilometres to the highway and then hitching a ride from there. Transportation to and from the airport should have had the priority on any other non relevant facility, migrant workers departing from MIA should have an easy life in reach the airport, and since flight could be scheduled late at night or early in the morning, there should be affordable hotels and motels nearby the airport.

Airlines and passenger are not the only relevant income producers, the airport should approach a multilateral approach and also try to push the cargo services, since the airport is built to carry out this kind of operation and it is equipped with storage complex, technological equipment including two special scanners. Reducing tax could also be applied for the cargo activities, by making MIA more competitive. Other non-airline services that could be offered at MIA includes: Training centers, aircraft maintaining facilities, flying schools.

## UPDATE

During the COVID 19 pandemic, the airport has seen a rival period<sup>96</sup>, it has been reopened and used for COVID related activities such as repatriation flights and cargo handling of medical supplies. Moreover on the 9th of August 2020, Emirates cargo officially commenced cargo operations at airport.<sup>97 98</sup>

figure 13<sup>99</sup>



<sup>96</sup> Economynext.com. (3 August 2020) "Sri Lanka's Mattala Airport gets busy in Covid-19 crisis, eyes scheduled flights".

<sup>97</sup> colombopage.com (9 August 2020) "Sri Lanka's Mattala International Airport commences cargo flights".

<sup>98</sup> Lucio Cillis (31 Jul 2020 ) Mattala, “ "l'aeromorto" dello Sri Lanka che rinasce grazie al Covid-19 “ [repubblica.it](https://www.repubblica.it)

<sup>99</sup> Mattala Rajapaksa International Airport - Wikipedia

## Final reflection and conclusions

I have to admit that I started this paper with the idea that the home country of my parents was being exploited by China. Sri Lanka, has a history of colonialism, from 1815 to 1948 the country have been a British colony, I thought, they managed to win their independence back from the British but now, they have fallen into a Chinese debt-trap. I had been influenced by the numerous newspaper headlines portraying Sri Lanka as a country that fell into a debt-trap as a result of large spending of infrastructure development financed by the Chinese.

But the more I researched and read, the more a different picture started emerging. Sri Lanka right now is the battleground of international clashes involving India, Cina and the US. We could say that India and the US forms a coalition, a coalition that does not want China to put down roots in Sri Lanka , and is afraid of the increasing involvement of China in the funding of infrastructure development of huge projects in the country, while it appears that China have been slowly and constantly broadening its economical ties with Sri Lanka.

Both Indian and American media have helped creating the debt-trap narrative, using as a base for this narrative what happened with the Hambantota Port, many articles and even papers from scholars papers, have presented the Hambantota deal as a ‘debt-for-equity’ swap in which the Sri Lankan government not being able to cope with the debt owed to China, chose to hand over the port to the Chinese in order to obtain the cancellation of the debt. The reality is that Sri Lanka leased out Hambantota port to China largely due to a persistent balance of payment (BOP) crisis deriving from the reduction of trade, while at the same time external debt servicing costs have been rising and accumulating over the years. Sri Lank faced a severe shortage of foreign, therefore, the country had to look for various ways to obtain foreign currency inflows. Leasing Hambantota port was one of the ways to increase the country’s foreign reserves. Overall, the Chinese loans were never defaulted on and the loan agreements between the China and Sri Lanka remain unchanged, with no cancellation of debt. Instead the Hambantota deal sets that 70 percent stake of the port is leased to China Merchants Port Holdings Company Limited (CM Port) for 99 years against the payment of \$1.12 Billion.<sup>100</sup> The other 30% stake of the port is owned by Sri Lanka Ports Authority (SLPA). The deal provides that SLPA has the right to purchase an additional 20% after 10 years and the

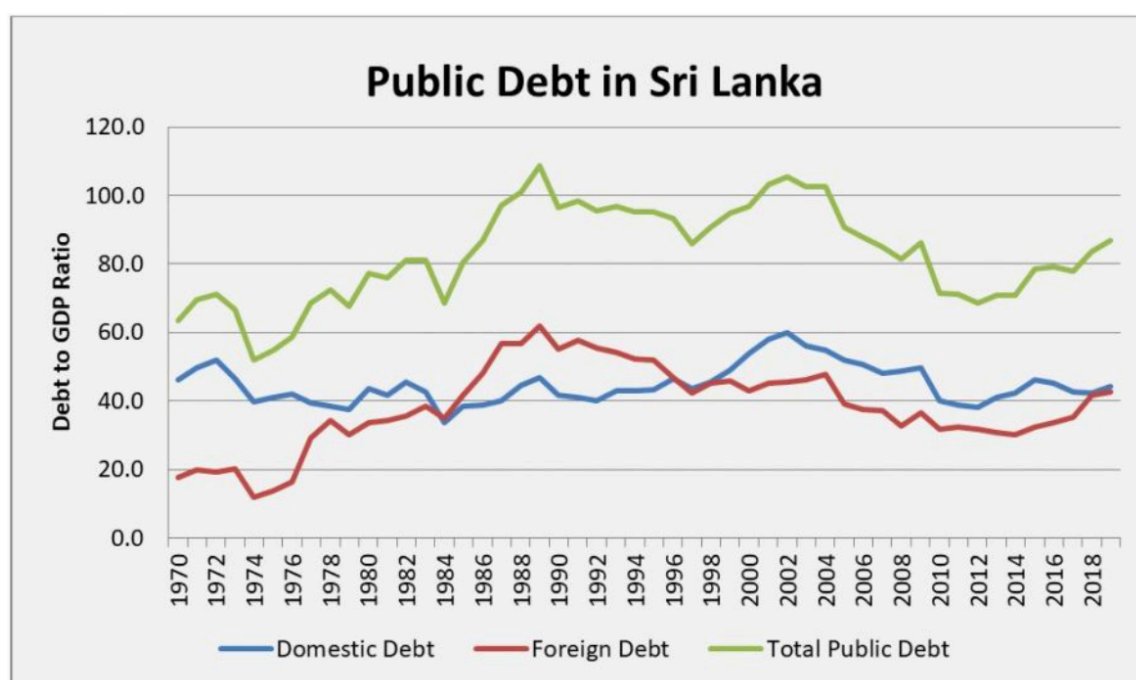
---

<sup>100</sup> Singh, A. (2020). The myth of ‘debt-trap diplomacy’ and realities of Chinese development finance. *Third World Quarterly*, 1–15.

remainder thereafter.<sup>101</sup> The money obtained through the leasing of the Hambantota Port was used to strengthen the country's foreign money reserve. Unfortunately Sri Lanka's debt problem goes beyond the money that the country owes to China. The main problem is that change in the composition of its foreign debt and structural weakness of the economy caused by factors like the overall reduction of trade, the rise of protectionism and the reduction of government revenue.<sup>102</sup> Sri Lanka's economic problem probably started when the country upgraded into middle income status [1997]<sup>103</sup> (this hypothesis of identifying the economic risks confronted by Sri Lanka in light of upgrading into middle income status is being studied by several researchers at the time).

By upgrading to a middle income country, its ability to access concessional loans provided by multilateral agencies and bilateral donors declined.<sup>104</sup> Therefore Sri Lanka had to look for other creditors in order to face the need of foreign cash inflow. In 2007 Sri Lanka issued its first International Sovereign Bond (ISB) worth \$500 million, and started procurement of money through the international capital market at commercial rates. ISBs have a maturity of 5 to 10 years with an

Figure 14<sup>105</sup>



<sup>101</sup> Sautman B., & Hairong Y., 2019. "The "Chinese Debt Trap" and its Sri Lanka Example," HKUST IEMS Thought Leadership Brief Series 2019-29, HKUST Institute for Emerging Market Studies, revised Sep 2019.

<sup>102</sup> Moramudali, U. (August 01, 2019). Against the Tide: The Growth of China-Sri Lanka Trade Chinese trade with the island nation is booming even while Indian trade seems stuck. (2/5)

<sup>103</sup> Ft.lk (06 Jul 2020) "SL's descent to lower middle income: Strategise to move up to high-income level"

<sup>104</sup> Moramudali (16 Feb 2021) "Sri Lanka's Foreign Debt Crisis Could Get Critical in 2021" The Diplomat (2/5)

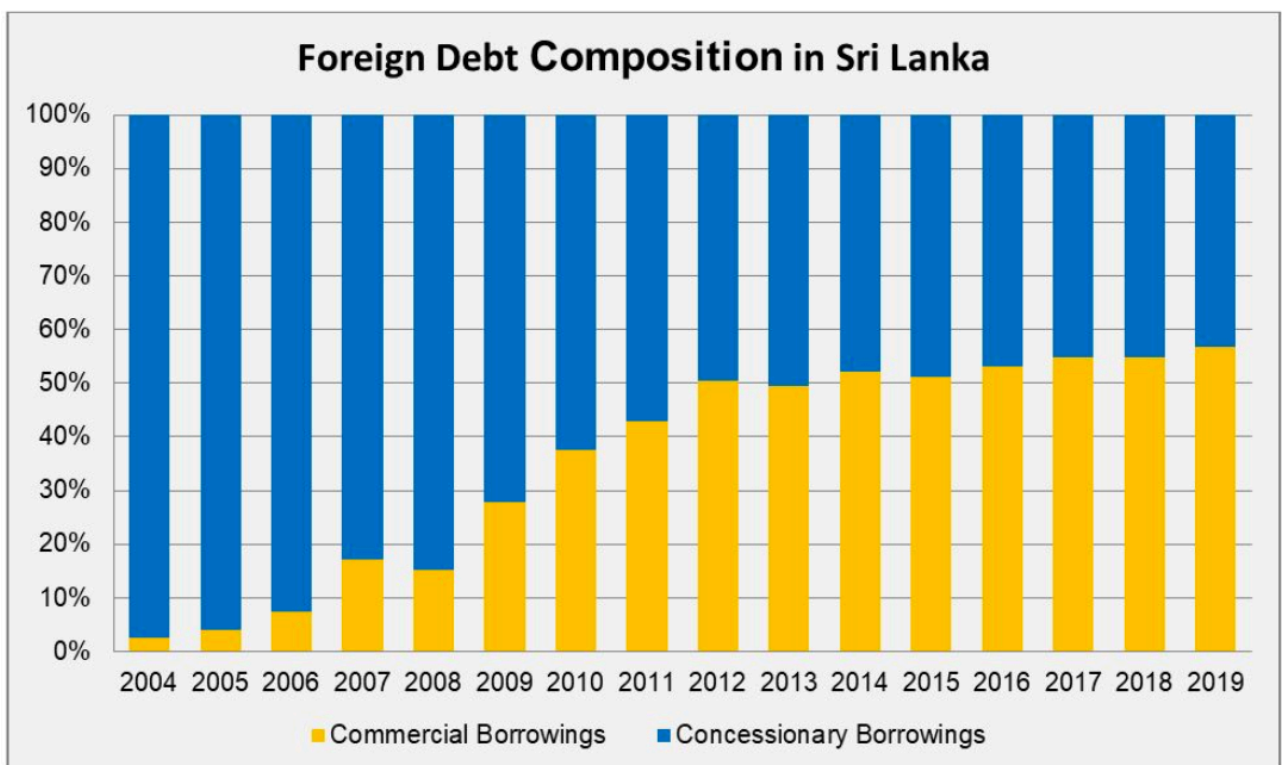
<sup>105</sup> Ibid. (1/5)

annual rate above 6 percent, and have to be paid biannually. This means that when the bond comes at maturity it generate a large reign currency outflow.

In 1995, Sri Lankans foreign debt stock accounted for more than 50 percent of the county’s GDP, in the next years it continued to decline due to the rapid economic growth the country experienced. The end of the civil war boosted the economic growth of the country and contributed to the drop of the debt-to-GDP ratio to 30 percent in 2014. But growth was being driven mainly by public debt, financed by IBSs and commercial loans obtained by China.

It would seem like Sri Lanka situation improved over the past years, but it is not, even though debt-t-GDP ratio has declined, Sri Lanka’s foreign debt structure have changed too. As we can see in figure 15 in the 1990s the concessionary borrowing represented the vast majority of the county’s

Figure 15<sup>106</sup>

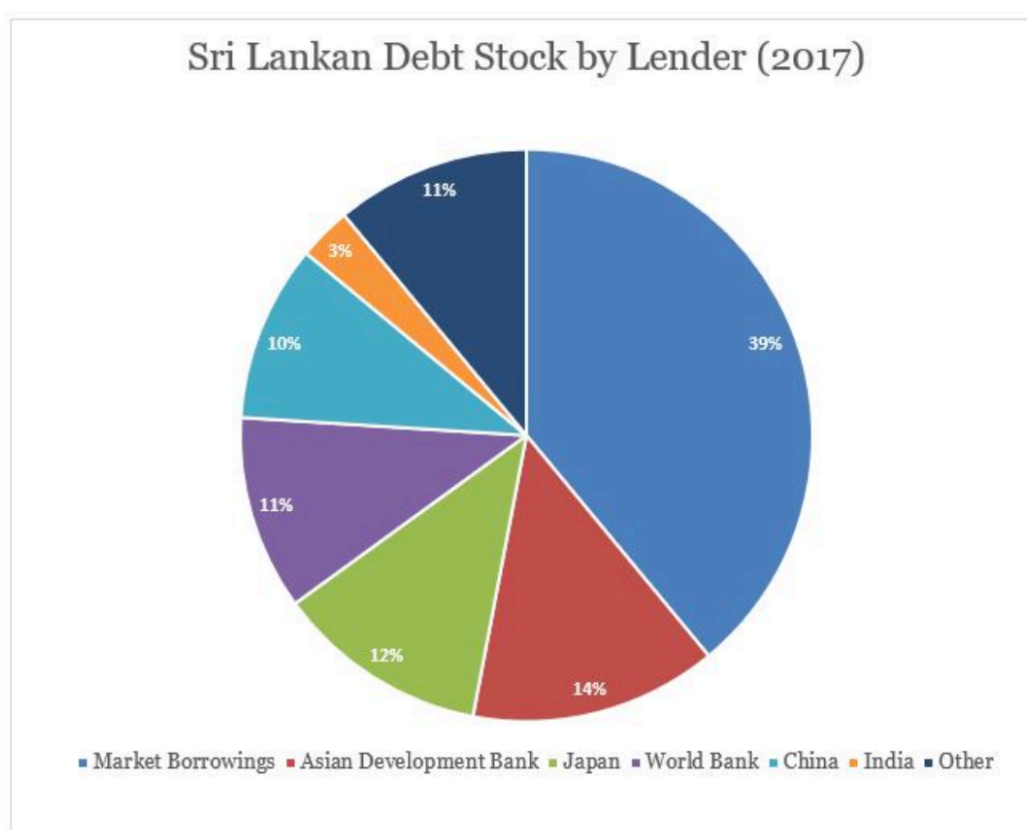


international borrowings, those concessionary borrowings had long payback period, lengthy grace period and low interest rates. Most of the concessionary loans were provided by multilateral and bilateral development agencies such as the World Bank, the Asian devilmnt Bank and the Japan

<sup>106</sup> Moramudali (16 Feb 2021) “Sri Lanka’s Foreign Debt Crisis Could Get Critical in 2021” The Diplomat (2/5)

International Cooperation Agency. These loans were distributed in 25-40 years period of time with interest rates as low as 1 percent or even less. In 2004 as we can see from picture XX the commercial loans share of Sri Lanka's foreign debt composition was very small, only account for 2.5 percent, at the end of 2019 however commercial loan have overcome the share of concessionary borrowings reaching 56 percent of the country's foreign debt composition. At the time of the Hambantota deal, debt repayments for the construction of the Hambantota Port only amounted to around 5 percent of total annual foreign debts payments, some loan repayment had not even started at time.<sup>107</sup>

Figure 16<sup>108</sup>



Graph X provides a break down of Sri Lanka's foreign debt composition by the end of 2017. As we can see Sri Lanka's total debt to China is around 10 percent of the country total foreign debt. While commercial borrowing through the form of ISBs accounts for 39 per cent.

<sup>107</sup> Moramudali, U. (May 01, 2019) Is Sri Lanka Really a Victim of China's 'Debt Trap'? Sri Lanka's debt crisis and Chinese loans – separating myth from reality. *The diplomat*. (1/3)

<sup>108</sup> Ibid. (2/3)



Although China is not Sri Lanka's major source of credit, it should, however, be noted that the foreign debt owned by the Chinese has increased drastically during the last decade.<sup>109</sup> From 2008 to 2012, approximately 60 percent of foreign borrowing has come from China. While the recent rise of China-Sri Lanka economic relations has been subject of much discussion and analysis, one significant part of this relations have not captured the interest of spotlight. Trade between the two countries have been living a momentum of fast growth. When China approach a country as lander, at the same time there is an in crease in Chinese imports to the country in the country in question, this phenomena is directly linked to Chinese short-term trade credits, and Chinese loans that often are tied to Chinese Exports, as analysed previously, loans granted for infrastructural development often comes with clause implying that raw material will be sourced from China though importation.

Amighini (2021)<sup>110</sup> finds that all recipient countries of a large number of BRI projects have registered a significative increase in connectivity (any form of informal economic relationship among states or regional groupings, including trade, business activities, financial relationships, human mobility, and state-sponsored economic relations) in the period of time between 2013 and 2018. According to Amighini (2021) Sri Lanka registered an increase of 68 percent. Nonetheless, among those country there is no unique trend in export towards China but on the other hand country recipient of at least 15 BRI projects like Myanmar, Sri Lanka, Cambodia, Serbia, Laos and Vietnam have registered an increase in export towards China which in same case even reached 300 percent. There are also case in which a country recipient of many BRI projects did not registered an increase in export towards China, that is the case of Indonesia, there has been also cases in which the export contracted like in Pakistan, Kazakistan and Saudi Arabia. While there is no clear pattern in the increase in export towards China, import(s) from China have increased significantly in correlation to the number of BRI projects developed in country taking part to the BRI. The correlation between number of BRI projects and increase in import(s) from China is clear, positive and of relevance. Which means that so far in terms of economic benefits though access to new market favoured by the increase of connectivity have favoured China more than it have favoured other country taking part to the BRI.

Sri Lankan economic researcher focusing on public debt dynamics in Sri Lanka, Moramudali Umesh, in an article published by The Diplomat, provides details from his detailed analysis. In

---

<sup>109</sup> Ibid. (1/3)

<sup>110</sup> Amighini, A. (Jan, 2020). Finanza e potere lungo le Nuove via della Seta. Bocconi Editore ISBN 978-88-8350-308-5 (34/191)

2000 Chinese imports only accounted for 3.5 percent of Sri Lanka's total imports, by 2017 the Chinese importation accounted to 20 percent. Import increased by almost four times from 2011 to 2017. Moramudali, present data of Sri Lanka's trade with China in comparison with India. While Chinese imports have only recorded a constant growth without recording a contraction of the trend, Indian imports have contracted in several years.

Sri Lankan imports of Chinese goods have increased despite the two country not having a Free Trade Agreement (FTA), an FTA is an agreement according to international law to form a free-trade area between the cooperating states. There are two types of trade agreements - bilateral and multilateral. Bilateral trade agreements occur when two countries agree to loosen trade restrictions to expand business opportunities. Starting from 2014, there have been discussion between the two country on signing such an agreement but due to disagreement regarding the level of trade to be liberalized under the proposed FTA. China proposed that 90 percent of goods imported to Sri Lanka would have been tariff free, but the Sri Lankan government was not conformable with that number and discussions ceased at that time. On the other hand, India have an active FTA with Sri Lanka, that has been active since 2000. The FTA has helped expand trades between the two country but both countries are not pleased by the level of trade passing through the FTA. The FTA is being underutilized and has a number of flows which are responsible for the underutilization, for example non-tariff barriers (NTBs) and other levies applied to custom duties faced by exporters. Sri Lanka imposes two additional levies to custom duties, the Cess Levy and Port and Airport Levy (PAL) on different kind of imported goods, resulting in the nullification on the duty-free benefit offered by the FTA. There have been discussion between the two countries on expanding the scope of the existing FTA by signing an Economic and Technology Cooperation Agreement (ECTA). In contrast to Amighini (2021) Moramudali informs us that although Chinese imports have increased significantly, Sri Lankan export to China continue to be slow resulting in the expansion of the already existing trade deficit among the two countries. In 2005, the trade deficit between Sri Lanka and China amounted to 2.5 percent of the GDP, by 2018 that deficit had reached 4.4 percent of GDP accounting for 40 percent of the total trade deficit of Sri Lanka.

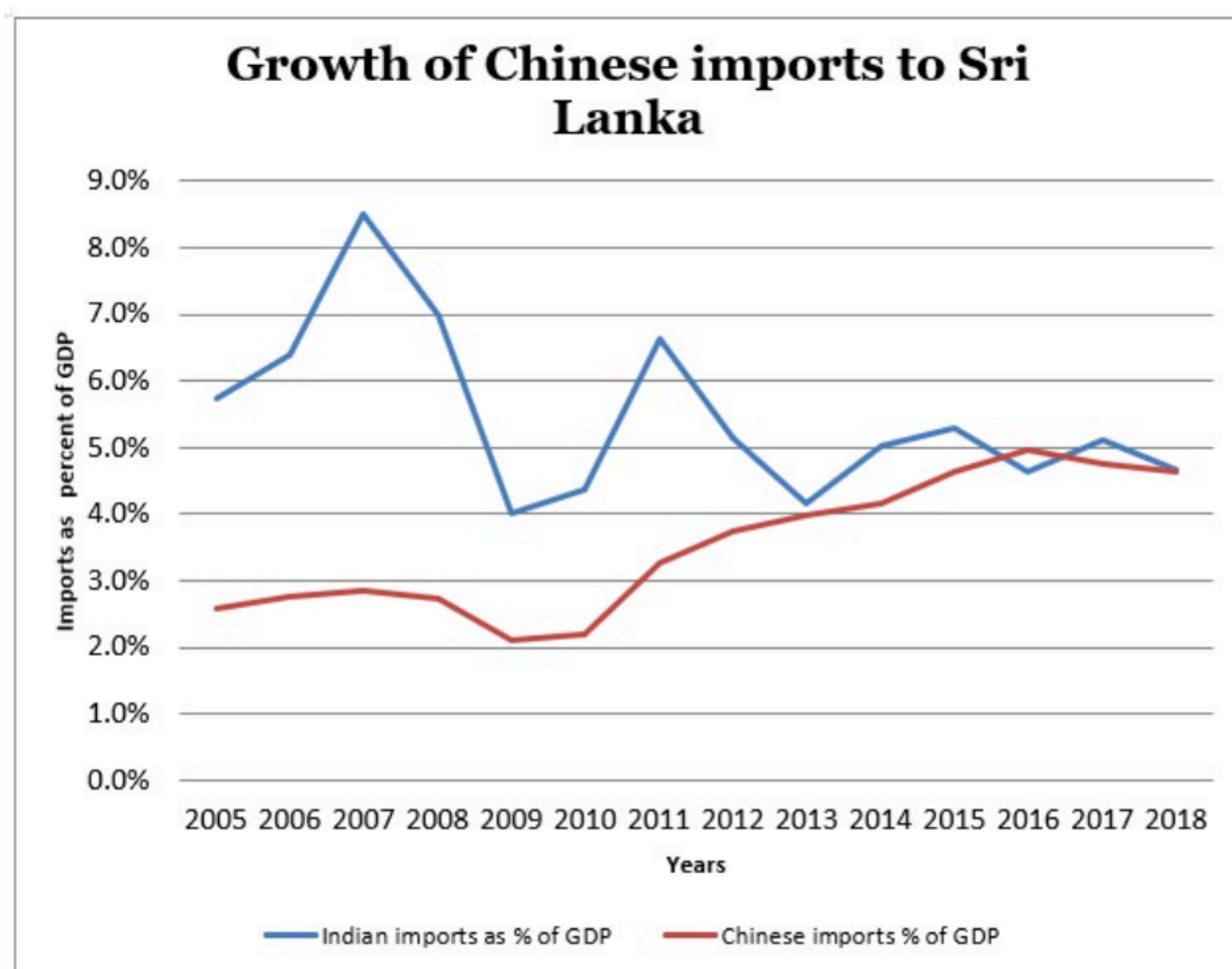
In the matter of FTA, Sri Lanka, India and China, Brautigam, D. (2019)<sup>111</sup> provides an interesting fact, Chinese companies setting up manufacturing activities in the Hambantota port industrial area,

---

<sup>111</sup> Brautigam, D. (2019). A critical look at Chinese 'debt-trap diplomacy': the rise of a meme. *Area Development and Policy*, 2-14.

will be able to export their products to India through the FTA agreements between Sri Lanka and India. This might be a concerning matter to India because it might widen the Indian trade deficit with China .

Figure 17



Going back to Sri Lanka, to get a more clear and deeper view on the rise of Chinese imports, we have to take into account the import-to-GDP ratio (The import-to-GDP ratio of a country, is calculated by dividing the aggregate value of imports over a period by the gross domestic product for the same period). Since 2000, Sri Lanka's import-to-GDP ratio has been declining and the same the export-to-GDP ratio has been declining too. This indicates a contraction of total trades in a new current of protectionism, protectionist policies are usually adopted by the government of a given country to restrict international trade in order to help domestic industries. In the Sri Lankan case instead it has been used by the government to cope with the shortage of foreign currency reserves in light of the upcoming debt servicing payments, due to the maturity of international sovereign bonds.

In 2015 Sri Lanka managed the BOP crisis thanks to the support from the IMF through an Extended Fund Facility of \$1.5 billion.

More recently the Sri Lankan government has focused on import restriction, with the ongoing pandemic, the government was able to restrict the number of imports, including import of vehicles which helps in reducing the foreign currency outflows. The pandemic itself is helping the government in reducing foreign currency outflows, as of today (15 Jun 2021) Sri Lanka is still under curfew, and travel within the country is restricted, hence, there is lower demand of oil which combined to the low price led to a decline in the foreign currency outflows to purchase fuel.

Moramudali argues that managing foreign debt through curtailing imports is not a sustainable solution for Sri Lanka, and foreseen that with the increase of oil prices in comparison to 2020 and an expected post-COVID economic revival, fuel import bills will increase again, putting further pressure on the foreign reserves of the country in 2021. Putting together all these factors makes it clear that Sri Lanka's foreign debt troubles is likely to take a worse turn, which is the bitter reality, that the Sri Lankan government seems content to ignore.

The environmental impact of Chinese backed infrastructural development in Sri Lanka has been mixed. According to environmental specialist, early infrastructure like the Norochcholai Power Station and the Hambantota Port, did not meet international standards nor fully respected domestic legislation. Some sources reported that the construction of The Colombo International Financial City [former Colombo Port City] ( an ongoing commercial and residential project on reclaimed land being constructed near the Colombo Port) resulted in a decrease of fish stock, badly impacting the livelihoods of local fisherman.

Fisheries provide a significant source of income and nutrition for millions of people worldwide, especially in Asia, which is the continent with the highest numbers of fishers and fish farmers. Nevertheless, fishing communities basic human rights are often violated by stronger powers in the pursue of economical benefits. Fishing communities rights to adequate food and nutrition (RTFN) are being threatened by land reclaimant ad industrial pollution. According to the submission , coordinated by FIAN International (A human rights organization established in 1986 working for the worldwide implementation of the human right to adequate food and nutrition), to the United Nations Universal Periodic Review of China, China has breached its obligation in regard to RTFN, the right to housing, the right to work, and the right to live in a healthy environment of fishers in

Colombo Sri Lanka. The document focuses on analysing the impact of China's non compliance with its extraterritorial obligations on economic, social and cultural rights.<sup>112</sup>

### **Legal Framework on China's Extraterritorial Obligations**

States' obligations do not stop at their national borders. The principle of the universality of human rights requires States to respect, protect and fulfill human rights beyond their borders in certain situations. These Extraterritorial Obligations (ETOs) of States are based on different sources of international human rights law.

[from China's Extraterritorial Obligations vis-a-vis the Right to Adequate Food and Nutrition of Fishers in the Philippines, Indonesia, and Sri Lanka - Joint Submission to the UN UPR of China (Third Cycle/31 Session) - coordinated by FIAN International] (2/4)

- *Articles 55 and 56 of the Charter of the United Nations stipulate that all members pledge to take joint and separate actions in cooperation with the UN to achieve universal respect for human rights and fundamental freedoms for all. The Universal Declaration of Human Rights (UDHR) further sets out in Article 22 a duty of international cooperation for the realization of ESC rights. The International Covenant on Economic, Social and Cultural Rights (ICESCR), Article 2 (1) emphasizes international cooperation and assistance as an appropriate means for the realization of the ESC rights. The International Covenant on Civil and Political Rights (ICCPR) further elaborates the individual and joint obligations of States to respect human rights, at home and in other countries.*
- *CESCR General Comment (GC) No. 24 on State Obligations under the ICESCR in the Context of Business Activities, issued in 2017, clearly spells out States' ETOs with regard to business entities, and requires State Parties to "take the necessary steps to prevent human rights violations abroad by corporations domiciled in their territory and/or jurisdiction (...), without infringing the sovereignty or diminishing the obligations of the host States under the Covenant"*

---

<sup>112</sup> China's Extraterritorial Obligations vis-a-vis the Right to Adequate Food and Nutrition of Fishers in the Philippines, Indonesia, and Sri Lanka - Joint Submission to the UN UPR of China (Third Cycle/31 Session) - coordinated by FIAN International, The following organizations have contributed to the case studies: FIAN Philippines; Kesatuan Nelayan Tradisional Indonesia/Indonesian Traditional Fishermen Association (KNTI), Jaringan Advokasi Tambang/Mining Advocacy Network (JATAM), Yayasan Suara Nurani Minaesa (YSNM); People's Movement Against Port (PMAPC), National Fisheries Solidarity (NAFSO), and Franciscans International (FI).

(para 26). Furthermore, GC No. 24 also addresses the need for remedy, and calls on State Parties to “take steps to (...) redress infringements of Covenant rights that occur outside their territories due to the activities of business entities over which they can exercise control, especially in cases where the remedies available to victims before the domestic courts of the States where the harm occurs are unavailable or ineffective” (para 30).

- Several Treaty Bodies such as the ICESCR, ICCPR, the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) and the Convention on the Rights of the Child (CRC) have pronounced numerous recommendations emphasizing various human rights obligations of States towards persons outside their borders.
- The Maastricht Principles on Extraterritorial Obligations of States in the Area of Economic, Social and Cultural Rights (Maastricht Principles),<sup>12</sup> drafted by 40 international law experts from the world over, and former members of international human rights treaty bodies, clarify the ETOs on the basis of standing international law. The Maastricht Principles, for example, prohibit direct interference by States that nullifies or impairs the enjoyment of ESC rights outside their territories (Principle 20) and require States to take necessary measures to ensure that non-State actors (e.g. TNCs and other business enterprises) do not nullify or impair the enjoyment of ESC rights (Principle 24).
- On the RTFN of fishers, the former Special Rapporteur on the Right to Food has called upon States to “refrain from taking measures, including large-scale development projects, that may adversely affect the livelihoods of inland and marine small-scale fishers, their territories or access rights, unless their free, prior and informed consent is obtained, and ensure that courts protect such rights; and conduct ex-ante assessments of extractive industry projects, such as sand extraction, operated by private entities in order to evaluate the possible negative human rights impacts on local fishing communities”.

The project is part of the infrastructure development program launched back in 2014 by Sri Lankan President Mahinda Rajapaksa and the Chinese President Xi Jinping and its part of the BRI. Like other Chinese-backed projects this projects was also halted in 2015 after Rajapaksa’s fall due to adverse environmental impact causing water pollution, costal erosion, fooding and the destruction of coral reefs and fishing grounds caused by sand and rock mining.

Under the President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe, a new agreement was signed on the continuation of infrastructure. This new agreement, involved the participation of Minister of Megapolis and Western Development Champika Ranawaka, the Urban Development Authority (UDA) and of China Harbour Engineering Company (CHEC), a subsidiary of Chinese Government-owned China Communication Construction Company (CCCC). The agreement also rules that, out of the 269 hectares of reclaim land, 116 hectares are supposed to be handed over to CCCC on a 99-year lease basis.

The Sri Lankan government has recently (20 May, 2021) passed the Colombo Port City Economic Commission Bill <sup>113</sup>after two days of debate. Under this new bill, the whole area of 269 hectares has been identified as a Special Economic Zone (SEZ) by the Sri Lankan Parliament, paving the way for the creation of the new financial hub of Colombo with an international magnitude. The Opposition of the Sri Lankan government is against this bill which they say will create a Chinese colony in Sri Lanka. The 225-member Sri Lankan Parliament approved the bill 149-58.<sup>114</sup> Amendments proposed by the Opposition were rejected by the Government.

Local communities, made up by the common public, professionals such as environmentalist, engineers and marine biologist have resisted the project from the early stage of its implementation fearing the negative impact on marine ecology, the environment and the livelihood of those depending on fishers activity. According to them, the Environmental impact assessment (EIA) carried out to investigate the impact on the environment of this project appears to be inadequate and incomplete. Legally speaking since the EIA did not properly assessed the impact of the project activities, the work that have been already conducted is illegal. As mentioned before EIA is required by the Sri Lankan government for major projects with expected impacts on the environment. Chinese investors have shown interest in responding to public concerns on the matter. A subsidiary of China Communication Construction company, CHEC Port City Colombo (CPCC) spent \$3 million to support the affected families, around \$9,000 from 2016 to 2019 to support 9,000 fishing families as part of their corporate responsibility measures.<sup>115</sup> But according to estimate presented in

---

<sup>113</sup> IndraStra Global Editorial Team (28 Mar 2021) Sri Lankan Parliament Passes Colombo Port City Bill Available at: <https://www.indrastra.com/2021/05/sri-lankan-parliament-passes-colombo.html>

<sup>114</sup> (20 May 2021) The Colombo Port City Economic Commission Bill passed in Parliament <https://www.news.lk/news/political-current-affairs/item/32285-the-colombo-port-city-economic-commission-bill-passed-in-parliament>

<sup>115</sup> Hundlani, D., Kannangara, P. (May 07, 2020).The Belt and Road in Sri Lanka: Beyond the Debt Trap Discussion. (2/3)

the document submitted to the United Nations Universal Periodic Review of China by FIAN International, the number of fishers directly affected excised 30,000 in Negombo alone (Negombo is a costal region right next to the location where The Colombo International Financial City is being built). The overall figure of people affected by The Colombo International Financial City excised 600,000 if also take into account those working in associated industries of fishers activity. The Colombo International Financial City EIA only took into consideration 9000 fishers. Thousands of families have been deprived of their livelihoods and are being left behind.

Going ahead with the project is a clear breach of both Sri Lanka's territorial and China's extraterritorial human rights obligations: The involved parties must desist from further acts and omissions that could lead to impairing the enjoyment of ESC rights, such as the fisher peoples' human right to feed themselves and the human right to live in a healthy environment.

According to the Maastricht Principles on Extraterritorial Obligations in the area of ESCR, Principles 13, 14, 24, and 25, China is obliged to respect its extraterritorial obligations in regard to RTFN, economic, social, and cultural rights irrespective of the attitude of the Sri Lankan government and the fact that the victims live beyond China's borders.

Sri Lanka's environmental laws appear largely comprehensive, at least on paper, but there are questions about the extent to which these laws are being enforced. EIAs have been undertaken for major Chinese investments in Sri Lanka, but in many case they appear incomplete and in and there is a lack of clarity about the process.<sup>116</sup> It is unclear, who signs off on the EIAs and what qualification and expertise they must have in the field. The EIA process would benefit from the involvement of local stakeholder, member of civil society. Increased transparency should be a key factor of future EIA process in relation to Chinese projects, the general public and media should have access to data at every stage of a given projects.

*Sri Lanka should improve its domestic environmental laws in regard to stakeholder consultations and the capacity of the relevant agencies to enforce regulations. Partnering with investors that prioritize green investments would also be beneficial along with introducing a comprehensive incentive scheme that encourages green investment and financing.* <sup>117</sup>

---

<sup>116</sup> Central Environmental Authority (2018) "Implementation of the EIA process and ensuring compliance"

<sup>117</sup> Wignaraja, G., Panditaratne, D., Kannangara, P., Hundlani, D., (MAR, 2020) Chinese investment and the BRI in Sri Lanka. Asia-Pacific Programme.



Lechner et al., (2019)<sup>118</sup> investigate how negative environmental impact threaten to thwart China's ambients. The paper point out that there is little precedent for analysing and planing for environmental impacts of massive infrastructure of the magnitude of BRI. The paper also focuses on identifying the nature and types of environmental impacts and in demonstrating how social, economic and political factors can influence these impacts. This work also describe how impacts interact and aggregate across multiple spatiotemporal scales creating what they call cumulative impacts. They also point out that environmental policies associated with BRI are being increasingly designed and implemented although also from the Chinese side there are concerns about how these will be enforced in practice. Understanding BRI and its environment impacts would ensure China and countries along the BRI to ensure positive socio-economic impacts.

The environmental impact can be defined as the insertion between the infrastructure and the receiving environment. Lechner et al., (2019) characterise how different types of infrastructure development can affect differently the Earth system. The earth system is made of: atmosphere, hydrosphere, geosphere and the biosphere. The primary impacts of infrastructure development related to BRI includes, land-use change, landscape connectivity (Landscape connectivity is a multi-scalar concept allowing the investigation of how the interaction between species movement abilities and landscape structure affects species survival)<sup>119</sup> and emission. Human activities already effects most of Earth's ecosystem<sup>120 121</sup>. The magnitude of BRI infrastructure risks extending the human footprint and worsening it.

BRI infrastructure will affect most of Eurasia's largest river systems<sup>122</sup>, BRI development may intensify water stress in the region.<sup>123</sup> The geosphere, composed by soils and rocks, function as

---

<sup>118</sup>Lechner et al., (19 june 2019). Environmental Impacts of Infrastructure Development under the Belt and Road Initiative.

<sup>119</sup> Luque S., Saura S., & Fortin M M.,J., - Landscape connectivity analysis for conservation: insights from combining new methods with ecological and genetic data

<sup>120</sup> Venter, O.; Sanderson, E.W.; Magrath, A.; Allan, J.R.; Beher, J.; Jones, K.R.; Watson, J.E.M. Sixteen years of change in the global terrestrial human footprint and implications for biodiversity conservation. *Nat. Commun.* 2016, 7, 1–11.

<sup>121</sup> Vitousek, P.M.; Mooney, H.A.; Lubchenco, J.; Melillo, J.M. Human Domination of Earth's Ecosystems. *Science* 1997, 277, 494–499.

<sup>122</sup> Wang, Y.; Lin, Z. Jiaqiang dameigonghe ciquyu huanjing baohu hezuo wei "Yidaiyilu" zhanlve tigong huanbao zhicheng [Strengthening environmental cooperation in the Greater Mekong sub-region to support the One Belt One Road strategy]. *Environ. Sustain. Dev.* **2015**, 2, 9–12.

<sup>123</sup> Howard, K.W.F.; Howard, K.K. The new "Silk Road Economic Belt" as a threat to the sustainable management of Central Asia's transboundary water resources. *Environ. Earth. Sci.* **2016**, 75, 1–12.

cushion absorbing impacts on the environment, but has a limited carrying capacity often exceeded by human activities.<sup>124 125</sup>

“*Impacts on the biosphere, such as habitat degradation, fragmentation and loss, affect the health and survival of organisms and ecosystems.* <sup>126 127</sup> *Direct impacts give rise to a multiplicity of secondary or indirect impacts. Apart from direct impacts, infrastructure development facilitates successive indirect effects like poaching, logging, settlement and other human invasions; it is thus imperative to “avoid the first cut”, especially in area where the human footprint is low.* <sup>128</sup> “<sup>129</sup>

Analysis has shown that fear of local backlash and political pressure within China can motivate Chinese corporations to take corporate social responsibility (CSR) [Like in the case of The Colombo International Financial City] recognizing community concerns. The Chinese political class recognise that environmental problems are a threat to Chinese objectives and since 2012, the ‘ecological civilisation’ concept was added to the constitution.

BRI was conceived primary as a master plan for economic development through the New Silk Road, but it also offers an opportunity for all country involved to use BRI as a platform to promote cross-border environmental management. BRI countries are responsible for 95 percent of global net embodied carbon export. Foreign pressure has pressured China into outlining policies to promote green development and environmental protection for BRI projects.

Guidelines also exist for specific areas that are relevant to BRI, some of which were developed prior to BRI, these includes environmental protection (e.g., avoiding soil erosion, minimising noise and air pollution), and biodiversity conservation (e.g., conserving habitats, protecting threatened species, enhancing sustainable forestry, etc.) for the Chinese enterprises to integrate with

---

<sup>124</sup> Grieve, I.C. Human impacts on soil properties and their implications for the sensitivity of soil systems in Scotland. *CATENA* **2001**, *42*, 361–374.

<sup>125</sup> Norra, S.; Stüben, D. Urban Soils. *J. Soils Sediments* **2003**, *3*, 230–233.

<sup>126</sup> Johnstone, C.P.; Lill, A.; Reina, R.D. Habitat loss, fragmentation and degradation effects on small mammals: Analysis with conditional inference tree statistical modelling. *Biol. Conserv.* **2014**, *176*, 80–98.

<sup>127</sup> Laurance, W.F.; Goosem, M.; Laurance, S.G.W. Impacts of roads and linear clearings on tropical forests. *Trends Ecol. Evol.* **2009**, *24*, 659–669.

<sup>128</sup> Laurance, W.F.; Peletier-Jellema, A.; Geenen, B.; Koster, H.; Verweij, P.; Van Kuijk, M. Reducing the global environmental impacts of rapid infrastructure expansion. *Curr. Biol.* **2015**, *25*, R259–R262.

<sup>129</sup> Lechner et al., (19 June 2019). Environmental Impacts of Infrastructure Development under the Belt and Road Initiative.

environmental legislation and operations in host countries. Scholars and other commentators are concerned that these policies will fail to be put in practice due to the fact that these laws would have to be applied in multiple jurisdictions. Moreover, most of the policies on environmental management towards overseas investment are non-binding.

## **Acknowledgements**

If I have any merit on this paper it is only the one of providing a comprehensive view on Chinese - Sri Lankan economical relations and more specifically on Chinese loans and Chinese-backed projects. I have largely made use of:

- **Horn, S., Reinhart, C.M., Trebesch.** (JUL, 2019) “*China’s Overseas Lending*”. NBER WORKING PAPER SERIES. National Bureau of Economic Research.
- **Lechner Et al.**, (19 June 2019). “*Environmental Impacts of Infrastructure Development under the Belt and Road Initiative*”.

I wish to thank Moramudali, U, Attanayake C., for their work on Sri Lanka and Amighini, A. for her work on Chinese landing and availability.

Any mistakes in this work are mine alone.

## Bibliography

- **Aizenman J., Jinjarak Y., Park D.** (July 2011) “*Evaluating Asian Swap Arrangements*” Asian Development Bank Institute  
Available at: <http://hdl.handle.net/11540/3885>
- **Amighini, A.** (Jan, 2020). “*Finanza e potere lungo le Nuove via della Seta*”. Bocconi Editore ISBN 978-88-8350-308-5 (41/191)
- **Attanayake C.**,(20 Dec 2018) “*Mattala: Attracting Business into a Lonely Airport*” ISAS Working Paper No.314  
Available at: [https://www.researchgate.net/publication/330618697\\_Mattala\\_Attracting\\_Business\\_into\\_a\\_Lonely\\_Airport](https://www.researchgate.net/publication/330618697_Mattala_Attracting_Business_into_a_Lonely_Airport)
- **Behuria, A. K.** (2018). “*How Sri Lanka Walked into a Debt Trap, and the Way Out. Strategic Analysis*”, 168–178.  
Available at: <https://doi.org/10.1080/09700161.2018.1439327>
- **Brautigam, D.** (2019). “*A critical look at Chinese ‘debt-trap diplomacy’: the rise of a meme. Area Development and Policy*” 2-14.  
Available at: <https://doi.org/10.1080/23792949.2019.1689828>
- **Carmody, P.** (2020). “*Dependence not debt-trap diplomacy. Area Development and Policy*”, 23–31.  
Available at: <https://doi.org/10.1080/23792949.2019.1702471>
- **Carraï M., A.** (2021) “*Adaptive governance along Chinese-financed BRI railroad megaprojects in East Africa*” Elsevier, World Development  
Available at: <https://www.sciencedirect.com/science/article/abs/pii/S0305750X20305167?dgcid=author>
- **Chen, Y.** (24 July 2020) “*Chinese Debt and the Myth of the Debt-Trap in Africa*”, ISPI Online,,  
Available at: <https://www.ispionline.it/it/pubblicazione/chinese-debt-and-myth-debt-trap-africa-27024>
- **DeBoom, M. J.** (2020). “*Who is afraid of ‘debt-trap diplomacy’? Geopolitical narratives, agency and the multiscalar distribution of risk*”. Area Development and Policy, 15–22.  
Available at: <https://doi.org/10.1080/23792949.2019.1703556>

- **De Silva S.**,(11 August 2019) “ *Decrypting Sri Lanka’s ‘black box’ amidst an Indo–China ‘great game’* ” Journal of the Indian Ocean Region  
Available at: <https://doi.org/10.1080/19480881.2019.1640575>
  
- **FIAN International** (November 2018)“*China’s Extraterritorial Obligations vis-a-vis the Right to Adequate Food and Nutrition of Fishers in the Philippines, Indonesia, and Sri Lanka - Joint Submission to the UN UPR of China (Third Cycle/31 Session)*”  
The following organizations have contributed to the case studies: FIAN Philippines; Kesatuan Nelayan Tradisional Indonesia/Indonesian Traditional Fishermen Association (KNTI), Jaringan Advokasi Tambang/Mining Advocacy Network (JATAM), Yayasan Suara Nurani Minaesa (YSNM); People's Movement Against Port (PMAPC), National Fisheries Solidarity (NAFSO), and Franciscans International (FI).
  
- **Gallagher K., Kamali R., Wang Y.** (May 2016) “*Fueling Growth and Financing Risk: The benefits and risks of China’s development finance in the global energy sector*” Global Economic Governance Initiative - Boston University  
Available at: <https://open.bu.edu/handle/2144/23650>
  
- **Gransow B., Price S.** (8 May 2018 ) “*Social Risk Management at AIIB – Chinese or International Characteristics?* ” Journal of Chinese Political Science/Association of Chinese Political Studies  
Available at: <https://doi.org/10.1007/s11366-018-9553-8>
  
- **Horn, S., Reinhart, C.M., Trebesch.** (JUL, 2019) “*China’s Overseas Lending*”.  
NBER WORKING PAPER SERIES. National Bureau of Economic Research.  
Available at: <https://www.nber.org/papers/w26050>
  
- **Howard, K.W.F.; Howard, K.K.**(2016) “*The new “Silk Road Economic Belt” as a threat to the sustainable management of Central Asia’s transboundary water resources*” Environ. Earth. Sci. 75, 1–12.  
Available at: <https://www.cabdirect.org/cabdirect/abstract/20163208450>
  
- **Hurley, J., Morris, S., Portelance, G.** (MAY, 2018)“*Examining the Debt Implications of the Belt and road initiative from a Policy Perspective*”.  
Available at: <https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf>

- **Hussain Et al.**(2019) “*IMPACT OF FOREIGN INVESTMENT, LABOR FORCE AND INTEREST RATE ON ECONOMIC GROWTH: A CASE OF PAKISTAN (Under CPEC Project Contribution Countries)*” Asian Development Policy Review  
Available At: <http://www.aessweb.com/download.php?id=4817>
- **Johnstone, C.P.; Lill, A.; Reina, R.D.** ( 2014) “ *Habitat loss, fragmentation and degradation effects on small mammals: Analysis with conditional inference tree statistical modelling*”. Biol. Conserv. 176, 80–98.  
Available at: [https://www.academia.edu/18822514/Habitat\\_loss\\_fragmentation\\_and\\_degradation\\_effects\\_on\\_small\\_mammals\\_Analysis\\_with\\_conditional\\_inference\\_tree\\_statistical\\_modelling](https://www.academia.edu/18822514/Habitat_loss_fragmentation_and_degradation_effects_on_small_mammals_Analysis_with_conditional_inference_tree_statistical_modelling)
- **Kinyondo, A.** (2019). “*Is China Recolonizing Africa? Some Views from Tanzania*”. World Affairs, 128–164.  
Available at: <https://doi.org/10.1177/0043820019839331>
- **Kratz, A., Feng, A., & Wright, L.** (2019, April). “*New data on the ‘debt trap’ question*”. Rhodium Group.  
Available at: <https://rhg.com/research/new-data-on-the-debt-trap-question/>
- **Lai, K. P. Y., Lin, S., & Sidaway, J. D.** (2020). “*Financing the Belt and Road Initiative (BRI): Research agendas beyond the “debt-trap” discourse*”. Eurasian Geography and Economics, 61(2), 109–124.  
Available at:<https://doi.org/10.1080/15387216.2020.1726787>
- **Laurance, W.F.; Goosem, M.; Laurance, S.G.W.** “*Impacts of roads and linear clearings on tropical forests*”. Trends Ecol. Evol. 659–669.  
Available at: <https://www.sciencedirect.com/science/article/abs/pii/S0169534709002067>
- **Laurance, W.F.; Peletier-Jellema, A.; Geenen, B.; Koster, H.; Verweij, P.; Van Kuijk, M.** “*Reducing the global environmental impacts of rapid infrastructure expansion*”. Curr. Biol. 2015, 25, R259–R262.  
Available at: <https://www.sciencedirect.com/science/article/pii/S0960982215002195>
- **Lechner Et al.**, (19 June 2019). “*Environmental Impacts of Infrastructure Development under the Belt and Road Initiative*”.  
Available at: <https://www.mdpi.com/2076-3298/6/6/72/pdf>

- Mihalyi D., Adam A., Hwang J., (February 2020) “*Resource- Backed Loans: Pitfalls and Potential*” Natural Resource Governance Institute  
Available at: <https://resourcegovernance.org/sites/default/files/documents/resource-backed-loans-pitfalls-and-potential.pdf>
- **Manohran, N.** (May 2013). “*China and its peripheries, Beijing and India-Sri Lankan relations*”. Available at: [http://www.ipcs.org/issue\\_select.php?recNo=506](http://www.ipcs.org/issue_select.php?recNo=506)
- **Myers, L.** (17 November 2020). “*The Limits of China’s Influence in Maritime South Asia: Sri Lanka’s Foreign Policy Rebalance*”.  
Available at: <https://www.wilsoncenter.org/blog-post/limits-chinas-influence-maritime-south-asia-sri-lankas-foreign-policy-rebalance>
- **Norra, S.; Stüben, D. Urban Soils. J.** (2003) “*Soils Sediments*” 230–233.  
Available at: <https://link.springer.com/article/10.1007/BF02988664>
- **Peiris O., V.** (15 June 2019) “*Evaluation of Post Impacts of Second International Airport in Sri Lanka with reference to the Environmental Impact Assessment Process*”  
Available at: <https://www.researchgate.net/publication/333799087>
- **Rauf A. Et. Al.** (31 March 2020) “*Does sustainable growth, energy consumption and environment challenges matter for Belt and Road Initiative feat? A novel empirical investigation*” Elsevier, Journal of Cleaner Production  
Available at: <https://www.sciencedirect.com/science/article/abs/pii/S0959652620313913>
- **Refinitiv** “*BRI Connect: An Initiative in Numbers*”  
Available at: [https://www.refinitiv.com/content/dam/marketing/en\\_us/documents/expert-talks/belt-road-initiative-risk-and-reward.pdf](https://www.refinitiv.com/content/dam/marketing/en_us/documents/expert-talks/belt-road-initiative-risk-and-reward.pdf)
- **Samaranayake N.** (2011) “*Are Sri Lanka's Relations with China Deepening? An Analysis of Economic, Military, and Diplomatic Data*” Asian Security. (121/146)  
Available at: <http://dx.doi.org/10.1080/14799855.2011.581603>
- **Sautman B., & Hairong Y.,** (2019) “*The “Chinese Debt Trap” and its Sri Lanka Example*” HKUST IEMS Thought Leadership Brief Series 2019-29, HKUST Institute for Emerging Market Studies, revised Sep 2019.  
Available at: <https://ideas.repec.org/p/hku/briefs/201929.html>



- **Shaomin, X., & Jiang, L.** (2020). “*The Emergence and Fallacy of 'China's Debt-Trap Diplomacy' Narrative*”. *China International Studies*, 81, 69-84.  
Available at: <https://heinonline.org/HOL/LandingPage?handle=hein.journals/chintersd81&div=7&id=&page=>
- **Singh, A.** (2020). “*The myth of 'debt-trap diplomacy' and realities of Chinese development finance*”. *Third World Quarterly*, 1–15.  
Available at: <https://doi.org/10.1080/01436597.2020.1807318>
- **Venter, O.; Sanderson, E.W.; Magrath, A.; Allan, J.R.; Beher, J.; Jones, K.R.; Watson, J.E.M.** “*Sixteen years of change in the global terrestrial human footprint and implications for biodiversity conservation*” *Nat. Commun.* 2016, 7, 1–11.  
Available at: <https://www.nature.com/articles/ncomms12558>
- **Vitousek, P.M.; Mooney, H.A.; Lubchenco, J.; Melillo, J.M.** (1997) “*Human Domination of Earth's Ecosystems*” *Science*, 277, 494–499.  
Available at: <https://science.sciencemag.org/content/277/5325/494>
- **Wignaraja, G., Panditaratne, D., Kannangara, P., Hundlani, D.,** (MAR, 2020) Chinese investment and the BRI in Sri Lanka. Asia-Pacific Programme.  
Available at: <https://www.chathamhouse.org/sites/default/files/CHHJ8010-Sri-Lanka-RP-WEB-200324.pdf>
- **Zhang F, Yu M., Yu J. & Jin Y.** (2017) “*The Effect of RMB Internationalization on Belt and Road Initiative: Evidence from Bilateral Swap Agreements*” *Emerging Markets Finance and Trade*, 53:12, 2845-2857, DOI: 10.1080/1540496X.2017.1382346.  
Available at: <https://doi.org/10.1080/1540496X.2017.1382346>
- **Yang L. Et. Al.** (2020) *Environmental-social-economic footprints of consumption and trade in the Asia-Pacific region*” *Nature Communications*  
Available at: <https://doi.org/10.1038/s41467-020-18338-3>
- **Zhitao, L., Wenjie, Z., Chenung, Y.W.,** (JAN 2016) Working Paper “*China's Bilateral Currency Swap Lines*”. CESifo  
Available at: [https://www.cesifo.org/DocDL/cesifo1\\_wp5736.pdf](https://www.cesifo.org/DocDL/cesifo1_wp5736.pdf)

## Sitography

- **Abi-Habib, M.** (June 25, 2018) “*How China Got Sri Lanka to Cough Up a Port*”.  
Available at: <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>
- **Abeyagoonasekera, A.** (Feb 16,2021). “*Bandwagoning with China: Geopolitics of a container terminal in Sri Lanka*”.  
Available at: <https://www.orfonline.org/expert-speak/bandwagoning-china-geopolitics-container-terminal-srilanka/>
- **AffairsCloud** (24 October 2014) “*China launches AIIB in Asia to counter World bank*”  
Available at: <https://affairscloud.com/china-launches-aiib-in-asia-to-counter-world-bank/>
- **AidData** “*EXIM Bank loan for Mattala Rajapaksa International Airport - Project ID 33369*”  
Available at: <https://china.aiddata.org/projects/33369>
- **AirwaysMagazine** (28 Sep 2020) “*Spark Air Plans 2021 Launch in Sri Lanka*”  
Available at: <https://airwaysmag.com/airlines/spark-air-plans-2021-launch-in-sri-lanka/>
- **Asia Unbound** (24 Mar 2012) “*Countries in China’s Belt and Road Initiative: Who’s In And Who’s Out*”  
Available at: <https://www.cfr.org/blog/countries-chinas-belt-and-road-initiative-whos-and-whos-out>
- **Asirwatham G.** (24 December 2018) “*Overview of Sri Lanka-China Relations*”
- **Bosco, F.** (OCT 01, 2018). “*Un oceano per due, la rivalità geopolitica di Cina e India*”.  
geopolitica.info  
Available at: <https://www.geopolitica.info/un-oceano-per-due-la-rivalita-geopolitica-di-cina-e-india/>
- **Chellaney, B.** (2017). “*China’s Debt-Trap Diplomacy. Proyect Syndicate*”.  
Available at: <https://www.project-syndicate.org/commentary/china-one-belt-one-road-loans-debt-by-brahma-chellaney-2017-01?barrier=accesspaylog>
- **China Xinhua News’s** twitter post on the Hambantota Port lease  
<https://twitter.com/XHNews/status/939753813115789312?s=20>
-

- **Cillis L.** (31 Jul 2020 ) Mattala, “ *"l'aeromorto" dello Sri Lanka che rinasce grazie al Covid-19*” [repubblica.it](https://www.repubblica.it)  
Available at: [https://www.repubblica.it/economia/2020/07/31/news/mattala\\_1\\_aeromorto\\_dello\\_sri\\_lanka\\_che\\_rinasce\\_grazie\\_al\\_covid-19-301036531/](https://www.repubblica.it/economia/2020/07/31/news/mattala_1_aeromorto_dello_sri_lanka_che_rinasce_grazie_al_covid-19-301036531/)
- **colombopage.com** (9 August 2020) “*Sri Lanka's Mattala International Airport commences cargo flights*”.  
Available at: [http://www.colombopage.com/archive\\_20B/Aug09\\_1596991257CH.php](http://www.colombopage.com/archive_20B/Aug09_1596991257CH.php)
- **Daily Mirror** (16 December 2018) “*Ranil sworn in as Prime Minister*”  
Available at: <https://www.dailymirror.lk/article/Ranil-sworn-in-as-Prime-Minister-159853.html>
- **Dal Ben M., Stramazzo V.**, (02 Jan, 2020) “*Riqualfica per l'aeroporto Marco Polo di Venezia*”  
Available at: <https://www.stradeeautostrade.it/aeroporti-e-hub/riqualifica-per-laeroporto-marco-polo-di-venezias/3/> [Italian]
- **economynext.com** (3 August 2020) “*Sri Lanka's Mattala Airport gets busy in Covid-19 crisis, eyes scheduled flights*”.  
Available at: <https://economynext.com/sri-lankas-mattala-airport-gets-busy-in-covid-19-crisis-eyes-scheduled-flights-72608/>
- **Ferchen, M.** (2018). “*China, Venezuela and The Illusion of Debt-Trap Diplomacy. Washington, DC*” Carnegie-Tsinghua Centre for Global Policy.  
Available at: <https://carnegietsinghua.org/2018/08/16/china-venezuela-and-illusion-of-debt-trap-diplomacy-pub-77089>.
- **Fernholz, T.** (2018). “*Eight countries in danger of falling into China's 'debt trap'*”.  
Quartz  
Available at: <https://qz.com/1223768/china-debt-trap-these-eight-countries-are-in-danger-of-debt-overloads-from-chinas-belt-and-road-plans/>
- **Ft.lk** (06 Jul 2020) “*SL's descent to lower middle income: Strategise to move up to high-income level*”  
Available At: <https://www.ft.lk/columns/SL-s-descent-to-lower-middle-income-Strategise-to-move-up-to-high-income-level/4-702627>

- **france24** “*In Sri Lanka, the new Chinese Silk Road is a disappointment*”  
Available at: <https://www.france24.com/en/20190324-sri-lanka-new-chinese-silk-road-disappointment-economy-debt-italy-france-investment>
- **Horn, S., Reinhart, C.M., Trebesch.** (FEB 26, 2020). “*How Much Money Does the World Owe China?*”  
Harvard Business Review  
Available at: <https://hbr.org/2020/02/how-much-money-does-the-world-owe-china#>
- **Hundlani, D., Kannangara, P.** (May 07, 2020). “*The Belt and Road in Sri Lanka: Beyond the Debt Trap Discussion*”  
The Diplomat  
Available at: <https://thediplomat.com/2020/05/the-belt-and-road-in-sri-lanka-beyond-the-debt-trap-discussion/>
- **Kannangara A.** (21 Nov 2010) “*Norochcholai coal power project to be opened in January*”  
sundayobserver.lk  
Available at: <https://web.archive.org/web/20110119043518/http://www.sundayobserver.lk/2010/11/21/fea03.asp>
- **LankaCNews** (Sinhala) (08 November 2020) “මන්නල ගුවන්තොටු පුරවැසියන්ට..? මන්නල මෙහෙයුම් අරඹන බව ඇමරිකා සමගමක් කියයි..”  
<https://lankacnews.com>
- **Luque S., Saura S., & Fortin M M.,J.,** - “*Landscape connectivity analysis for conservation: insights from combining new methods with ecological and genetic data*”  
Available at: <https://link.springer.com/article/10.1007/s10980-011-9700-5>
- **Mendis, P.** (NOV 12, 2017) “*The BRI and the Buddhist Kingdom of Lanka*”  
Sunday Observer LK  
Available at: <http://www.sundayobserver.lk/2017/11/12/features/bri-and-buddhist-kingdom-lanka>
- **Moramudali, U.** (May 01, 2019) “*Is Sri Lanka Really a Victim of China’s ‘Debt Trap’? Sri Lanka’s debt crisis and Chinese loans – separating myth from reality*”  
The diplomat.  
Available at: <https://thediplomat.com/2019/05/is-sri-lanka-really-a-victim-of-chinas-debt-trap/>

- **Moramudali, U.** (August 01, 2019). “*Against the Tide: The Growth of China-Sri Lanka Trade* Chinese trade with the island nation is booming even while Indian trade seems stuck”.  
The Diplomat  
Available at: <https://thediplomat.com/2019/08/against-the-tide-the-growth-of-china-sri-lanka-trade/>
- **Moramudali, U.** (January 01, 2020). “*The Hambantota Port Deal: Myths and Realities*”.  
Untangling the truth about Chinese debt and Sri Lanka means cutting through some misleading media narratives.  
The Diplomat  
Available at: <https://thediplomat.com/2020/01/the-hambantota-port-deal-myths-and-realities/>
- **Moramudali, U.** (OCT 23, 2020).“*Sri Lanka’s Changing Relationship to Chinese Loans. Both the share and the type of loans from China are changing as Sri Lanka wrestles with persistent balance of payment issues*”.  
The Diplomat  
Available at: <https://thediplomat.com/2020/10/sri-lankas-changing-relationship-to-chinese-loans/>
- **Moramudali, U.** (Feb 12, 2021) “*Sri Lanka’s Foreign Debt Crisis Could Get Critical in 2021*”  
The Diplomat  
Available at: <https://thediplomat.com/2021/02/sri-lankas-foreign-debt-crisis-could-get-critical-in-2021/>
- **news.lk** (20 Jun, 2014 ) “*FUEL HYDRANT SYSTEM AND AVIATION REFUELING TERMINAL AT MRIA, HAMBANTOTA*”  
Available at: <https://www.news.lk/fetures/item/1293-fuel-hydrant-system-and-aviation-refueling-terminal-at-mria-hambantota>
- **overheid.nl** “*Articles of Agreement of the Asian Infrastructure Investment Bank*”. Government of the Netherlands.  
Available at : <https://verdragenbank.overheid.nl/en/Verdrag/Details/013207>
- **Pellizza, S.** (NOV 24, 2014). “*Sri Lanka, arrivano i Cinesi*”.  
Il Caffè Geopolitico  
Available at: <https://ilcaffegeopolitico.net/24161/sri-lanka-arrivano-cinesi>

- **Perera, A.** (DEC 05, 2018). “*Fears grow over Chinese projects in Sri Lanka*”.  
China dialogue  
available at: <https://www.chinadialogue.net/article/show/single/en/10954-Fears-grow-over-Chinese-projects-in-Sri-Lanka>
- **Reuters Staff.** “*China’s Xi offers fresh \$295 million grant to Sri Lanka*” Available at: <https://www.reuters.com/article/us-sri-lanka-china-grant-idUSKBN1KC0D8>
- **Rodrigo M.** (Mar 18, 2013 ) “*Airport in Elephant Territory opens today*”  
Available at: <https://window2nature.wordpress.com/2013/03/18/airport-in-elephant-teritory-opens-today/>
- **Saldinger A.,** (31 March 2021) “*How does China lend? Insight from a study of 100 loans*”  
Devex.com  
<https://www.devex.com/news/how-does-china-lend-insight-from-a-study-of-100-loans-99550>
- **Selvanayagam S., S., Farook T. Silva T./S.** (13 December 2018) “*SC rules dissolution of parliament illegal*”  
Daily Mirror LK  
Available at: <http://www.dailymirror.lk/article/SC-rules-dissolution-of-parliament-illegal-159742.html>
- **Singh. S,** (10 July 2020) “*China’s Strategic Relations with Sri Lanka*””.  
South Asian Voice  
Available at: <https://southasianvoices.org/chinas-strategic-relations-with-sri-lanka/>
- **Srinivasan, M.** (APR 12, 2021). “*China extends \$500 million loan to Lanka*”.  
The Hindu  
Available at: <https://www.thehindu.com/news/international/china-extends-500-million-loan-to-lanka/article34305277.ece>
- **The Standard** (13 March 2015) “*Washington rebukes Britain’s decision to join China-backed Asian infrastructure bank*”  
Available at: [https://www.thestandard.com.hk/breaking\\_news\\_detail.asp?id=58463&icid=2&d\\_str=20150313](https://www.thestandard.com.hk/breaking_news_detail.asp?id=58463&icid=2&d_str=20150313)
- **The Washington Times** (17 Jan 2005).”*China builds up strategic sea lanes*”  
Available at: <https://www.washingtontimes.com/news/2005/jan/17/20050117-115550-1929r/>

- **Times of India** (13 Jun 2021) “*B3W versus BRI: For US, countering China’s infra swagger won’t be easy. For New Delhi, Biden’s plan not enough*”  
Available at: <https://timesofindia.indiatimes.com/blogs/toi-editorials/b3w-versus-bri-for-us-countering-chinas-infra-swagger-wont-be-easy-for-new-delhi-bidens-plan-not-enough>
- **Van der Meer S.**, (06 March 2019) “*Demystifying Debt along China's New Silk Road*”,  
The Diplomat  
Available at: <https://thediplomat.com/2019/03/demystifying-debt-along-chinas-new-silk-road/>
- **Wignaraja, G.** (18 November 2020) “*Resetting China–Sri Lanka relations for a Biden presidency*”.  
Available at: <https://www.eastasiaforum.org/2020/11/18/resetting-china-sri-lanka-relations-for-a-biden-presidency/>

## Wikipedia

- Asian Infrastructure Investment Bank:  
Available at: [https://en.wikipedia.org/wiki/Asian\\_Infrastructure\\_Investment\\_Bank#Lending\\_results](https://en.wikipedia.org/wiki/Asian_Infrastructure_Investment_Bank#Lending_results)
- Belt and Road Initiative:  
Available at: [https://en.wikipedia.org/wiki/Belt\\_and\\_Road\\_Initiative](https://en.wikipedia.org/wiki/Belt_and_Road_Initiative)
- Bretton Woods system:  
Available at: [https://en.wikipedia.org/wiki/Bretton\\_Woods\\_system](https://en.wikipedia.org/wiki/Bretton_Woods_system)
- China Development Bank  
Available at: [https://en.wikipedia.org/wiki/China\\_Development\\_Bank](https://en.wikipedia.org/wiki/China_Development_Bank)
- China-Sri Lanka relations:  
Available at: [https://en.wikipedia.org/wiki/China%E2%80%93Sri\\_Lanka\\_relations](https://en.wikipedia.org/wiki/China%E2%80%93Sri_Lanka_relations)
- Debt-trap diplomacy:  
Available at: [https://en.wikipedia.org/wiki/Debt-trap\\_diplomacy](https://en.wikipedia.org/wiki/Debt-trap_diplomacy)
- Exim Bank of China  
Available at : [https://en.wikipedia.org/wiki/Exim\\_Bank\\_of\\_China](https://en.wikipedia.org/wiki/Exim_Bank_of_China)
- The Organisation for Economic Co-operation and Development (OECD):  
Available at: [https://en.wikipedia.org/wiki/OECD#Member\\_countries](https://en.wikipedia.org/wiki/OECD#Member_countries)
- Mahinda Rajapaksa  
Available at : [https://en.wikipedia.org/wiki/Mahinda\\_Rajapaksa](https://en.wikipedia.org/wiki/Mahinda_Rajapaksa)

- Mattala Rajapaksa International Airport

Available at: [https://en.wikipedia.org/wiki/Mattala\\_Rajapaksa\\_International\\_Airport](https://en.wikipedia.org/wiki/Mattala_Rajapaksa_International_Airport)

- Maithripala Sirisena

Available at: <https://en.wikipedia.org/wiki/>

[Maithripala\\_Sirisena#Presidency\\_\(2015%E2%80%932019\)](https://en.wikipedia.org/wiki/Maithripala_Sirisena#Presidency_(2015%E2%80%932019))

- Paris Club:

Available at: [https://en.wikipedia.org/wiki/Paris\\_Club#Observers](https://en.wikipedia.org/wiki/Paris_Club#Observers)

## Podcast

Podcast The Belt and Road Podcast

3: A History of the Hambantota Port in Sri Lanka - The Importance of Chinese State Owned Enterprises and Host Country Elite Politics in the Belt and Road - Xiao'Ou Zhu

<https://www.buzzsprout.com/196316/781350-a-history-of-the-hambantota-port-in-sri-lanka-the-importance-of-chinese-state-owned-enterprises-and-host-country-elite-politics-in-the-belt-and-road-xiao-ou-zhu>

## Governmental document

- **Government of Sri Lanka, Auditor's General Department** "*Performance and Environment Audit Division, Selection of Mattala as the Alternative International Airport of Sri Lanka and its Operations*" Report No. PES/PE/MA/2015/02

Available at: [http://www.auditorgeneral.gov.lk/web/images/audit-reports/upload/2015/peformance\\_report\\_2015/MATTALAE.pdf](http://www.auditorgeneral.gov.lk/web/images/audit-reports/upload/2015/peformance_report_2015/MATTALAE.pdf)

- **Central Environmental Authority** (2018), "*Implementation of the EIA process and ensuring compliance*"

Available at: <http://www.cea.lk/web/implementation-of-the-eia-process-and-ensuring-compliance>



## Conferences

### 1. SAIS-CARI 7th Annual Conference – China’s Overseas Lending in Comparative Perspective”

Panel 5: May 4, 2021 09:00 AM EST – Borrower Agency (online)

Since the publication of Lucy Corkin’s landmark 2013 book, *Uncovering African Agency: Angola’s Management of China’s Credit Lines*, scholars have deepened our understanding of how Chinese lenders and their borrowers negotiate finance. Two decades of scholarly analysis of the World Bank and IMF’s structural adjustment policies during the 1980s and 1990s made it abundantly clear that weaker countries did not simply accept the terms that were offered, or even dictated to them, by powerful lenders in Washington. Has this changed with Chinese finance? This panel will explore domestic factors that explain many of the outcomes of Chinese lending in developing countries in the current period. How do these factors compare across countries? Across time periods? Across other lenders?

Moderator: Ho-Fung HUNG, Professor in Political Economy, Johns Hopkins SAIS

Panelists:

- Alvin CAMBA, PhD Candidate in Sociology, Johns Hopkins University; Incoming Assistant Professor, Korbel School, University of Denver, "How Rodrigo Duterte Bent Chinese Dam Builders to His Political Will"

- Umesh MORAMUDALI, Lecturer, Department of Economics, University of Colombo, “Sri Lanka’s Journey with Chinese Loans – Unpacking the Realities”

- Folashadé SOULÉ-KOHNDU, Senior Research Associate, Global Economic Governance Programme, Oxford University Blavatnik School of Government, “Passive Agents? Bureaucratic Agency in China-Africa Negotiations”

Discussant: W. Gyude MOORE, Senior Policy Fellow, Center for Global Development

## 2. SAIS-CARI 7th Annual Conference – China’s Overseas Lending in Comparative Perspective”

Panel 7: Tuesday, May 18 – What is the impact of Chinese lending?

Current headlines indicate continued concerns about Chinese lending in Africa and African countries’ growing debt burdens, but what are the actual impacts of Chinese loans and development finance? Does Chinese lending (and development finance from other lenders) impact economic growth? Local entrepreneurship? Global value chains? And how are loans/funds allocated within countries? The papers in this panel, the second of two featuring work carried out by our 2020-2021 CARI Research Fellows, examines these questions and more. All of the papers in this panel are based on empirical research and econometric analyses using CARI loans data and other datasets.

Moderator: Yoon Jung PARK, CARI Associate Director, Johns Hopkins SAIS

Panelists:

Keyi TANG, PhD Student, Johns Hopkins SAIS, "Development Finance and Distributive Politics: Comparing Chinese and World Bank Finance in Sub-Saharan Africa"

Vito AMENDOLAGINE, Assistant Professor of Economics, University of Foggia, “International Development Lending and Global Value Chains in Africa”

Jonathan MUNEMO, Associate Professor, Department of Economics and Finance, Salisbury University, “Do Chinese Infrastructure Loans Promote Entrepreneurship in African Countries?”

Marvellous NGUNDU, PhD Graduate, Economics, University of Johannesburg, “How Economic Growth in Africa Responds to Chinese Loans : Evidence from CARI's New Loan Dataset”

Discussant: Hervé LADO, Guinea Country Manager, Natural Resource Governance Institute