



## **Sri Lankan Prime Minister's Visit to China (6-9 April 2016)**

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The Sri Lankan Prime Minister, Mr. Ranil Wickremesinghe's visit to China from 6<sup>th</sup> to 9<sup>th</sup> April and the joint statement issued on 9<sup>th</sup> April was important in terms of enhancing bilateral relations between the two countries. This is the first official visit to China by the PM after assuming office last year. Sri Lanka's bilateral engagement with China will have to be looked into in the context of a country, which is keen to emerge out of the impact of nearly thirty years of ethnic war on its economy and society. The utmost priority seems to be improving the economy through investments and development assistance in the form of aid and grants.

The statements given to the media and the joint statement were explicit in their emphasis on economic cooperation. For example, similarities were drawn between the two economies during the visit in which Wickremesinghe said, "Sri Lanka and China share similarities in various fields such as economic restructuring."<sup>1</sup> Similar view was expressed by the Chinese President, Xi Jinping, who said that there is a need to "integrate development strategies" and they are "willing to work with Sri Lanka to consolidate traditional friendship, expand reciprocal cooperation, and push forward strategic partnership of cooperation to a new high."<sup>2</sup> In this context, Sri Lanka will "cooperate with Chinese companies to promote major projects."

The joint statement mentions, "the two sides agreed to build on the previous work on a China-Sri Lanka Free Trade Agreement by negotiating a trade agreement which would include economic cooperation, trade in goods and services, and investment." The bilateral trade between China and Sri Lanka currently amounts to US 4.56 billion . China has also offered a grant of 500

million Yuan to Sri Lanka as a gesture of friendship and assured that China will continue to extend its support to Sri Lanka's investment zones and industrialisation projects. According to the Sri Lankan PM, both the countries 'finalised comprehensive economic strategy for the next two decades'.<sup>3</sup>

Some of the agreements signed were in tandem with the decisions taken by the Cabinet of Ministers meeting held on 6<sup>th</sup> April 2016 before the visit of the PM. Some of these decisions were, signing of an MoU between Sri Lanka and China on co-operation in the field of tourism; and rehabilitation of roads under China Development Bank funded priority roads project 3-Phase II. This project aims 'to develop 20 roads of 128.85 km length in Central and Sabaragamuwa Provinces'.<sup>4</sup> The MoU between the Ministry of Commerce of the People's Republic of China and Ministry of Development Strategies and International Trade of Sri Lanka was on comprehensive implementation of investment, economic and technological agreements. Finally, an MoU between Central Bank of Sri Lanka and the China Development Bank (CDB) was signed to 'maintain financial stability of the country by enhancing liquidity of the market and promoting the development of agriculture and infrastructure in Sri Lanka'.<sup>5</sup>

Other areas of cooperation that were mentioned in the statement included marine and coastal cooperation, public health, agriculture, fisheries, water conservancy, tourism, culture and people to people contact. On defence and security cooperation, both sides expressed willingness to cooperate with each other. Both the countries also "reached broad consensus on China-Sri Lanka relations as well as on regional and international issues of mutual interests."<sup>6</sup> For example, while stressing upon the need for national unity of both the countries, the statement said that maintaining peace and security in the region and stability in the South China Sea is important. On this issue, 'Sri Lanka called for the settlement of disputes and differences through constructive dialogue, consultation and cooperation by the parties concerned in accordance with international laws and practices'.

The reservations expressed regarding China's investments in Sri Lanka during the last Presidential and Parliamentary elections last year withered away during the visit. The UNP was vocal in its criticism of Rajapaksa government's handling of Chinese investments and pledged to scrap some of the projects including \$ 1.4 billion Colombo Port City Project. The project is Sri Lanka's largest and one of the most politicized foreign investment project in Sri Lanka. The project was suspended last year in March due to environmental and other concerns. The stand on

the project was gradually changed by the UNP after coming into power, and before his departure to China, the PM, in an interview to the Chinese news paper *Xinhua*, said, "the Port City will become a special financial and business district of Sri Lanka which will have its own laws and there will be a separate financial and legal system operating in the Port City where people can come and transact business internationally."

In line with the changed policy, the Sri Lankan government successfully renegotiated the deal, which, the government claimed, would benefit both the countries. For instance, the China Communications Construction Company (CCCC) had estimated that the suspension of the port city project will cause losses of more than \$380,000 and sought compensation of \$125 million.<sup>7</sup> On the question of compensation to be paid by the Government of Sri Lanka due to delay in project implementation, the PM said that the 'the CCCC may have to re-evaluate what is more worth, the compensation of USD 125 million or the status of financial and business district'.<sup>8</sup> A few other changes that were brought to the project include; land will be provided on ninety-nine years lease basis, not on free hold basis; environmental concerns will be addressed and the project is going to be implemented in stages so as to address the environmental and local fishermen community's concerns. The Prime Minister also said 'that 1,000 acres in Hambantota would also be given under a 99 years lease'.<sup>9</sup>

What is evident in the joint statement and other reports is that Sri Lanka is keen to emerge as an economic and strategic hub in the Indian Ocean Region (IOR). This is one aspect that China would like to tap in on the future. Sri Lanka's willingness to engage actively in China's Belt and Road initiative and 21<sup>st</sup> century Maritime Silk Route is an example of government's interest in enhancing economic cooperation, particularly in attracting investments. The present stable political situation in the country is also an added advantage for China's investments. Touching upon the importance of engaging with a stable state in the Indian Ocean Region, the *Global Times* reported, "China-funded constructions in Pakistan cannot serve as a strong foothold for China, given the calamitous state of Pakistan's security. Sri Lanka can be of great importance for China in the security strategic layout in Indian Ocean."<sup>10</sup>

Some of the investments under the Belt and Road initiative such as China Development Bank (CDB) funded C11 road was built between Kandy and Nuwara Eliya'.<sup>11</sup> Other prominent investments by China are coal plant based in Puttalam to boost electricity supply; the Colombo South Container Terminal operated by China Merchants Group, which is considered as one of the

best hubs geographically on the Maritime Silk Road. Currently, ‘the China-run terminal has users from 14 countries and is predicted to generate profits worth 1.8 billion dollars in the coming 35 years’.<sup>12</sup> China is the second largest source of tourism to Sri Lanka.

According to reports, despite initial reservations, the main reason for the resumption of projects funded by China in Sri Lanka, ‘is to get relief from Chinese debt of US \$ 8 billion, obtained during Rajapaksa regime for various projects’.<sup>13</sup> This view was endorsed, when the PM said, “Sri Lanka will try to turn this debt into equity.”<sup>14</sup> The Sri Lankan government is also willing to offer ‘equity stakes in loss-making projects such as a second international airport and a deep sea port in the island’s south’<sup>15</sup>

The areas covered in the joint statement indicated that Sri Lanka is trying to get maximum benefit from its foreign bilateral relations. This view was expressed by the PM when he told reporters in Colombo that “an expected Rs. 3000 billion worth competitive economy will be achieved by the Sri Lankan government” in the future. This would be achieved through economic engagement with other countries. For example, Sri Lanka by end of this year is expected to sign an economic pact with India, Free Trade pacts with China and Singapore, a trade agreement with Japan and is expected to regain GSP+ from the European Union (EU). The PM also said that, trade pacts with countries like Turkey, Iran, Pakistan, Thailand and an economic pact with South Korea will also be made by the government next year.”<sup>16</sup> This statement by the PM very well sums up the economic and foreign policy direction of the country and the visit to China also assured that Sri Lanka and China relations are on track.

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*The views expressed are that of the Researcher and not of the Council.*

## Endnotes:

<sup>1</sup> “Sri Lankan PM Sees Huge Potential in Cooperation with China,” *Xinhua*, 10 April 2016, [http://news.xinhuanet.com/english/2016-04/10/c\\_135263924.htm](http://news.xinhuanet.com/english/2016-04/10/c_135263924.htm).

<sup>2</sup> “Chinese President Meets Sri Lankan PM on Relations,” *Xinhua*, 8 April 2016, [http://news.xinhuanet.com/english/2016-04/08/c\\_135262268.htm](http://news.xinhuanet.com/english/2016-04/08/c_135262268.htm).

<sup>3</sup> “Sri Lanka-China comprehensive economic strategy for two decades Finalized” <http://www.ceylonews.com/2016/04/sri-lanka-china-comprehensive-economic-strategy-for-two-decades-finalised-video/>

<sup>4</sup> “Decisions Taken by the Cabinet of Ministers at Its Meeting Held on 06-04-2016,” 7-4-2016, <http://www.news.lk/cabinet-decusions/item/12907-decisions-taken-by-the-cabinet-of-ministers-at-its-meeting-held-on-06-04-2016>.

<sup>5</sup> Ibid.

<sup>6</sup> Ministry of Foreign Affairs, Sri Lanka, “Joint Statement between the People’s Republic of China and the Democratic Socialist Republic of Sri Lanka,” Beijing, 9 April 2016, <http://www.mea.gov.lk/index.php/en/media/media-releases/6452-jointstament-slpmvisitchina>.

<sup>7</sup> Baijie An, “Sri Lankan PM Says Port Project No Threat,” *People’s Daily*, 11 April 2016, <http://en.people.cn/n3/2016/0411/c90883-9042290.html>.

<sup>8</sup> “No Compensation for Port City Project Delay,” 11 April 2016, <http://news.lk/news/politics/item/12951-no-compensation-for-port-city-project-delay>.

<sup>9</sup> “No Compensation for Port City Project Delay,” *Daily News*, 11 April 2016, <http://www.dailynews.lk/?q=2016/04/11/local/78829>

<sup>10</sup> “Prime Minister’s Visit Expected to Iron out Sino-Lankan Divergences,” *Global Times*, 7 April 2016, [www.globaltimes.cn/content/977523.shtml](http://www.globaltimes.cn/content/977523.shtml).

<sup>11</sup> “China’s Belt and Road Initiative Boosts Poverty Relief in Sri Lanka,” *People’s Daily*, 6 April 2016, <http://en.people.cn/n3/2016/0406/c90000-9040690.html>.

<sup>12</sup> Ibid.

<sup>13</sup> “深圳楼市新政缓冲期,个月 海关辟谣不愿加税弃置商品 斯里兰卡否认求免80亿美元债务”

Guancha Zhe, March 11, 2016, [http://www.guancha.cn/economy/2016\\_04\\_11\\_356584.shtml](http://www.guancha.cn/economy/2016_04_11_356584.shtml).

<sup>14</sup> “Port City to Resume as Spl. Financial and Business Centre,” 10 April 2016, <http://www.dailymirror.lk/108098/Port-City-to-resume-as-Spl-Financial-and-Business-Centre>.

<sup>15</sup> Sri Lanka Eyeing Chinese Investments with Law Reforms: PM,” 10 April 2014, <http://www.france24.com/en/20160410-sri-lanka-eyeing-chinese-investments-with-law-reforms-pm>.

<sup>16</sup> “Port City to Resume as Spl. Financial and Business Centre,” 10 April 2016, <http://www.dailymirror.lk/108098/Port-City-to-resume-as-Spl-Financial-and-Business-Centre>.