

## Focus 81 – Regional Geopolitics and Sri Lankan Crisis: Options for India

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### Abstract

Sri Lanka faces perhaps the greatest financial crises in the country's history. Although such crisis is the outcome of much financial mismanagement, corruption, and lack of transparency in government, there are external factors involved as well. Due to its geo-strategic location, Sri Lanka much interests both China and India, who strongly compete for influence in the area. This article attempts to analyse the Sri Lankan crises from the perspective of a geopolitical struggle between China and India. It also focuses on providing information regarding the options for India in Sri Lanka.

### Keywords

Sri Lanka, India, China, Sri Lankan Crisis, Geopolitics.

## Introduction

The Island country of Sri Lanka faces a financial crisis since 2019. An economic tension between ethnic groups and socio-economic classes has existed since independence in 1948. The current economic crisis bares some resemblances with previous financial meltdowns in the nation's history. While financial mismanagement, political blunders, natural calamities and a decades-long civil war are persistent causes of economic misfortune, today's crippling inflation is different. This article explores the Sino-Indian geopolitical competition in the Indian Ocean region as an external cause of Sri Lanka's plight (Yueng, 2022).

Excessive borrowing from foreign lenders is the new, divergent factor; its unsound economic record is responsible for the magnitude of the current financial crisis. Financial resources were borrowed to fund public service entities and aid citizens affected by natural disasters. In 2021, the government also banned the use of Chemical fertilisers, which affected the livelihood of farmers and agricultural revenues. Experts estimated that yields could decline up to 43% last year, in a country wherein 70% of the population is directly or indirectly dependant on agriculture. Today, the ground reality is that citizens are queueing up in line for basic food items which are rationed; violent social unrest sweeps across the nation; army forces are deployed to handle these civil misfortunes (Jayasinghe, 2021).

While these events have contributed to Sri Lanka's currency devaluation, the country's geo-strategic currency should remain strong in the context of regional competition between India and China. Post-Cold war international relations hold the Asia-Pacific and South Asia as an intense geo-political, strategic area of great power struggles. The Sino-Indian competition in South Asia has been manifested in the extension of developmental projects to small nation-states in and around South Asia. In response, small states like Nepal, the Maldives and Bangladesh are actively balancing these Asian powers (Madan, 2021). As an emerging power, China has long-standing strategic interests in both South Asia and the Indian Ocean. Since the beginning of the BRI (Belt and Road Initiative) infrastructural connectivity project, China has laid down some roots in and along the shores of the Indian Ocean. This includes the port of Hambantota in Sri Lanka, which was acquired by China on a lease for 99 years. Similarly, natural gas, power grids, and the Payra deep sea port projects in Bangladesh, as well as infrastructure, industries

and a hydropower plant in Nepal, are all Chinese strategic endeavours (Samsani, 2021). Chinese presence in maritime, strategic choke points is remarkably strong – for Beijing cultivated infrastructural and debt relations with Indian Ocean littoral states most skilfully.

For its part, India considers itself a natural leader in the region. Through institutional frameworks like the SAARC (South Asian Association for Regional Cooperation), New Delhi aims to assert its leadership through democratic values and a sense of community. India uses normative power, through cultural, religious and people-to-people connections. In addition, as a balancer and a potential great power, India's relations with South Asian nations are accelerated due to their geo-strategic importance and an expanding Chinese presence in the region. The chain of Chinese ports in the Indian Ocean (the 'string of pearls') causes much concern in New Delhi. Consequently, India is actively involved in counter-balancing China's involvement. In this context, the current Sri Lankan economic crisis presents an opportunity for India to play a constructive leadership role and assert its position in the South Asian region. Thus far, India has signed an agreement for a hybrid power plant in northern Sri Lanka, which was to be a Chinese project. This strategic victory will present opportunities for India to influence Sri Lanka's policy decisions in the future.

In order to understand the opportunities and risks arising from getting involved in such power competitions with China in South Asia, one needs a close monitoring and an analysis of the situation. The Sri Lankan case is useful so as to explore plausible options for India in its quest for balancing China's power projection.

### **Causes Behind the Sri Lankan Crisis**

**Foreign debt.** According to ADB's (Asian Development Bank) report published in 2019 on Sri Lanka's economic challenges, the country has suffered high deficits and increased public debt, which evolved into high inflation and a balance of payment crisis. As the nation was persistently deficient in macroeconomic performance, the government had to borrow money so as to bridge fiscal deficit gaps. This trend was perpetuated for years; unsustainable debts and the accumulation of interest rates created a shortage in foreign currency reserves (Weerakoon et al., 2019).

***Huge Tax cuts.*** In addition to the twin-deficit economy in a country which has long been living beyond its means, a further major trigger of the crisis were the large tax cuts imposed by Rajapaksa's government months before the COVID-19 outbreak. These tax cuts further eroded Sri Lanka's economy. Furthermore, as a result of a sudden chemical fertiliser ban, the agricultural industry's production of rice, a primary agricultural product, fell dramatically. In 2022 the country is supposed to repay a debt of US\$ 4 billion, yet it is left with only US\$ 2.31 billion. International Sovereign Bonds account for its largest foreign debt, US\$ 12.55 billion. In addition to debts, we witness a number of issues for Sri Lanka; for instance, its inability to afford crucial import goods – including food and fuel. Public grievances further multiplied when Rajapaksa's government devalued Sri Lankan Rupees in the hopes of signing a deal with the IMF (International Monetary Fund) for a loan (Reuters 2022).

***The COVID-19 Pandemic.*** The Island nation is substantially dependent on tourism and the presence of foreign workers, both of which took a hit during the 2020 pandemic outbreak. The majority of Sri Lanka's tourists travel from India, Russia and the UK, countries which faced stricter rules on flying abroad (CNBCTV18.com 2022).

***The Russia-Ukraine war.*** The ongoing Russia-Ukraine war is also one of the reasons for the inflation felt in different parts of the world. Sri Lanka's already suffering economy, which is heavily dependent on foreign goods, includes the import of 2% of its goods from Russia and the Ukraine; it exports 2.2% worth of goods to those countries, mainly Sri Lanka's Black tea. Both countries are main import destinations for wheat, asbestos, steel, copper and potassium chloride for fertilising purposes. Due to the Ukrainian crisis, the inflationary response in fuel prices and demand have reduced western nations' demand for Sri Lankan exports (Wijesinghe, 2022).

The combination of these elements, both domestic and international, plays a role in what has turned out to be the worst economic crisis in the history of Sri Lanka. This economic crisis presents opportunities as well as a space for both India and China to project diplomatic and economic power in the South Asian and Indian Ocean Regions.

## Sino-Indian Geopolitical Rivalry in Sri Lanka

China is seen as a 'great power' or an 'emerging superpower' by Indian scholars. India is seen as a 'middle power' or a 'balancing power.' The reason for this is because China's GDP (Gross Domestic Product) is over five times larger than India's (\$3.05 trillion). China's GDP is predicted to overtake that of the United States and thus become the world's largest economic dynamic by 2028. Defence expenditures have also become incomparable – India's defence budget for 2022 is \$ 70 billion; China's is \$229 billion. India has known a combination of 'competitive' (including conflictual) and 'cooperative' (through trade) relations with China in the past, particularly since their 1962 border war, with the 'competitive' portions satisfactorily compartmentalized alongside the 'cooperative' aspects. India had also tried to engage China in its shared neighbourhood in both South Asia and the Indian Ocean through a hybrid combination of cooperation and rivalry known as 'co-competition.' Despite increased trade relations between two, India is now reorientating its policy towards China by focusing more on competition than on cooperation. Specially under the Modi government, 'cooperative' aspects are being disrupted, both bilaterally and multilaterally (China being India's largest trade partner); the 'competitive' aspects of the relationship are being prioritised. In particular, India's retaliation for the Galwan valley clash includes bans on social media apps and the exclusion of Huawei from India's 5G competition.

At the regional level scholars have argued that India's inconsistencies while dealing with its neighbours have created openings for China to penetrate in South Asia. Nepal, Sri Lanka, the Maldives, and Bangladesh are all areas wherein many bilateral issues exist. Historically, small South Asian states have played the China card so as to pressure India and send a message about India's 'big brother attitude' towards them. However, after the announcement of the BRI and China's aggressive engagement in the region, the China card became reality. Not only did dependency over India decrease, but also small states in the region found a partner who is ready to give them large sums of money – with less regulation and transparency issues to top it off. Thus, due to the increasing competition between China and India in the region, most countries have become victims of financial mismanagement, corruption, and lack of transparency. Sri Lanka is among those who have

misinterpreted the Indo-Sino rivalry, in a mismanagement which ultimately pushed the country towards a great financial crisis and much social unrest.

Sri Lanka has always had a love-hate relationship with India. As regards the civil war and India's involvement in peacekeeping, Sri Lanka's Sinhalese leaders remain convinced that India always had a bias toward Tamil insurgents (as they have their roots in an Indian southern state). Such sentiments between India and Rajapaksa's government ultimately impacted India-Sri Lanka relations and brought Sri Lanka closer to China. Since the ongoing crisis, India has provided a \$1 billion line of credit for immediate response and is preparing to provide a further \$2 billion. While India is attempting to help Sri Lanka overcome the current situation, it is also ensuring that its interests in Tamil reconciliation and fishermen's issues are properly addressed (Basu 2022). After the defeat in the 2015 elections, Rajapaksa accused India for his failing. A report surfaced in which it was stated that a RAW (Research and Analysis Wing) official was key in unifying rival political parties - the Sri Lanka Freedom Party (SLFP) and the United National Party (UNP) — against Rajapaksa during the polls (The Economic Times, 2015). On the other hand, according to a report published by The New York Times, China is said to have provided USD 7.6 million to Mahinda Rajapaksa and his associates so as to help fund his presidential campaign in Sri Lanka in 2020 (Eurasian Times, 2018).

During the last decade, China has been a driving force in the expansion of India's economic ties. Sri Lanka has achieved an economic edge by strategically hedging between the two so as to achieve its goals, as the two giants stretch their economic muscles to garner influence in Colombo (Attanayake, 2022). A pattern can be identified – both China and India have participated in similar sectors. Both have engaged massively in mega projects such as airports, railways, and port development. However, most these megaprojects did not bear the expected fruits – in fact, they only added to Sri Lanka's financial burdens.

However, Sri Lanka did profit economically from the Sino-Indian struggle. It has also faced geopolitical concerns. China's entry into the Indian Ocean has altered the region's geopolitical landscape – and hence India's surroundings. Especially after the BRI's announcement, India has begun to see China's commercial activities as a method to further strategic aspirations in ways frequently detrimental to India's interests. India demonstrated its opposition to the China-sponsored BRI by refusing

to join the Belt and Road Forum in May 2017. This was India's strongest stance against the BRI to date. India questioned the endeavour's transparency and processes in several public pronouncements; New Delhi also rejected the China-Pakistan Economic Corridor (CPEC) due to territorial sovereignty concerns (Aryal, 2021). Likewise, the Hambantota port in Sri Lanka developed under the BRI triggered another security concern for India. The massive economic costs incurred by Sri Lanka during the civil war led President Mahindra Rajapaksa to seek international partners so as to help develop the country's most valuable economic assets – its ports. Although Rajapaksa could have developed the country's existing ports, Colombo and Trincomalee, he chose to develop an economically wasteful port, Hambantota Port, so as to bolster support in his home constituency (Moorthy, 2021). While India declined to invest in a flop, China stepped in to fund a port which was only expected to handle a fraction of the maritime traffic handled by the Colombo Port. Due to a lack of marine traffic, the Sri Lankan government was forced to lease the port to a Chinese state-owned firm in 2017 – on a 99-year lease (Nitin, 2021).

Sri Lanka looms strategically large in China's larger geopolitical goals. Scholars have called the Chinese power punctuations across the Indian Ocean the 'strings of pearls'. The term 'String of Pearls' refers to a geopolitical theory about China's objectives in the Indian Ocean region (IOR). It specifically refers to China's network of military and commercial facilities established in Indian Ocean countries between the Chinese mainland and Port Sudan in the Red Sea. Sri Lanka's ports are strategic in this regard (Dabas, 2017). Many pundits, especially Indian ones, have speculated that the Hambantota port will later serve as a naval base for the Chinese and that there will be serious security threats for India in the Indian Ocean Region. In response to the increasing Chinese presence in Indian Ocean littoral states, India is cooperating with neighbour states to offset China's influence – in addition to its own counterstrategies, such as the Security and Growth for All Region (SAGAR) Initiative, the Act East Policy, and the Cotton Road (Kanodia, 2020; Kesavan, 2020; Chaudhary, 2015).

### **Implications and Options for India**

The Sri Lankan crisis can have several implications for India. First, the Sri Lankan government has requested a \$ 2.5 billion emergency loan from China, and there is

a risk that China will gain even more influence in the island nation (Francis, 2022). Second, despite the fact that India does not buy many items from Sri Lanka and purchases less than \$1 billion worth of goods, there is a severe economic hazard regarding the handling of Indian trans-shipments. Sri Lanka is a vital trans-shipment hub, handling approximately half of India's international cargo. Currently, a huge number of Indian cargoes are stranded in Sri Lankan ports due to lack of labour, the inability to transport containers between ports, and the closure of port infrastructures (Bansal, 2022). Third, when there is a political or social crisis in Sri Lanka, a large number of refugees flee across the Palk Strait and the Gulf of Munnar to India, as the Tamil people have strong, historical links with Indian Southern States. Fourth, although Sri Lanka claimed to have completely destroyed Tamil rebel groups by 2009, Tamils still lack a meaningful representation in government and are still largely neglected. This economic downturn may provide a new strength for disgruntled rebels looking for a cause to rally around. Furthermore, on the side-lines, humanitarian crisis in India's immediate neighbourhood automatically demands India's proactivity to help and support communities in need.

### ***Options for India***

First, since India has already sent some humanitarian support and released a \$1 billion line of credit to Sri Lanka, India needs to closely observe the situation on the ground. While doing so, India should be very strategic on not meddling in Sri Lanka's internal politics. India has always been conscious of the need to keep China out; it has always been too conscious on issues related to Tamils. Now, while forwarding its efforts, India needs to look less of a bully, for it has been accused to be one for a long time. Second, this is a very good opportunity for India to show its regional leadership capabilities. Sri Lanka can be an opportunity for India to show other small states that it can be a wise and responsible big brother rather than a bully or a hegemonic power. The situation in Afghanistan, civil and political unrest in Pakistan, a possible economic crisis in Nepal, anti-Indian protests in the Maldives, and increasing bilateral communication between China and Bhutan are the present scenario of South Asia – a region much in need of a reliable leader. Third, the South Asian Association of Regional Cooperation (SAARC) has been dysfunctional for a long time. Due to various bilateral issues, mostly related to India, the organization has not been able to function; in fact, has merely become a talk shop (Aryal & Nair,



2021). During the first wave of COVID there were some efforts made by India; however, these feel apart due to COVID's chaotic second wave. Now, the Sri Lankan crisis has given India an opportunity to present itself as a regional leader that can be trusted.

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