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Arangalla, Chandana Priyantha

Monterey, California: Naval Postgraduate School

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**THESIS**

**NONALIGNMENT TO BALANCE CHINA'S INFLUENCE ON  
SRI LANKA: NEGOTIATING CHINA'S "STRING OF PEARLS"  
STRATEGY FOR THE PEARL OF THE INDIAN OCEAN**

by

Chandana Priyantha Arangalla

December 2017

Thesis Advisor:  
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Carolyn Halladay  
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NEGOTIATING CHINA'S "STRING OF PEARLS" STRATEGY FOR THE  
PEARL OF THE INDIAN OCEAN**

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(CIVIL-MILITARY RELATIONS)**

from the

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## **ABSTRACT**

Sri Lanka, particularly since 2008, has become more closely aligned with China in geopolitical affairs, upsetting the balance of its relationship with two other powers in the Indian Ocean: the United States and India. Sri Lanka has become more beholden to China for two main reasons—heavy indebtedness (more than \$5 billion) and unfavorable terms and conditions agreed to with China in bilateral agreements while developing key infrastructure facilities in the country. After winning a 30-year-long war against terrorism in 2009, Sri Lanka now must struggle to extricate itself from a “debt trap” set by China.

Against this background, this thesis explores the extent to which the Sri Lankan government can adopt nonalignment as the governing principle of its foreign policy. The thesis presents two possible scenarios: the successful adoption of nonalignment, balancing Sri Lanka’s geostrategic interests with major Indian Ocean Region (IOR) power players, and the failure to adopt nonalignment, putting Sri Lanka at risk to China’s coercive soft and hard power and compelling Sri Lanka to align more actively with the United States and India.

This thesis evaluates historical evidence and recent developments, considers the status quo, and conducts a threefold case study of Pakistan, Bangladesh, and Vietnam. This thesis shows that nonalignment could promote balance in geopolitics and the international political economy in the 21st century. Finally, this thesis makes two types of recommendations; one specific to Sri Lanka, and the other suggesting a nonalignment model for economically weaker countries to follow when dealing with stronger countries.



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## **LIST OF ACRONYMS AND ABBREVIATIONS**

BLF	Baluchistan Liberation Front
BOTA	Build Operate and Transfer Agreement
CHEC	China Harbor Engineering Company
CICT	Colombo International Container Terminals
CMPH	China Merchants Port Holdings
CPEC	China- Pakistan Economic Corridor
DRV	Democratic Republic of Vietnam
EEZ	Exclusive Economic Zone
ETIM	East Turkestan Islamic Movement
FTA	Foreign Trade Agreements
GATT	General Agreement on Tariff and Trade
GDP	gross domestic product
IMF	International Monetary Fund
IOR	Indian Ocean Region
KPK	Khyber Pukhtoonkhwa
LTTE	Liberation Tigers of Tamil Eelam
MFN	Most Favored Nation
MOU	Memorandum of Understanding
NAM	Non Aligned Movement
OBOR	One Belt, One Road
PLAN	People's Liberation Army Navy
PRC	People's Republic of China



RAW	Research and Analysis Wing
SLFP	Sri Lanka Freedom Party
SLPA	Sri Lanka Ports Authority
TEU	Twenty-foot Equivalent Units
UNP	United National Party
UNCLOS	UN Convention on the Law of the Sea
VCP	Vietnam Communist Party

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## I. INTRODUCTION

Sri Lanka's financial indebtedness to China and bilateral agreements between the two countries for huge infrastructure projects in the country have made Sri Lanka more beholden to China in the late post-independence period. The current situation, in which Sri Lanka is becoming more aligned with China, has diverted Sri Lanka from adopting a balance posture—specifically nonalignment—in its international relations, particularly with powerful countries interested in Indian Ocean geopolitics. The relationship between China and Sri Lanka, stretching from at least the first century CE, has become more significant to Sri Lanka in terms of bilateral trade and financial aid in the post-independence period. China's financial aid in the early post-independence period, from 1950 to 1975, totaled approximately \$130.7 million over a quarter century; whereas, in the post late-independence period, from 2005 to 2015, China's financial aid to Sri Lanka had exceeded \$ 5 billion—some 38 times more in comparing the financial aid status in the early post-independence period.<sup>1</sup> Sri Lanka's foreign relations in the early post-independence period featured neutrality and nonalignment, whereas Sri Lanka seems to be becoming more beholden to China in the late post-independence period, mainly because of its heavy indebtedness. This status quo—in which Sri Lanka is diverting from nonalignment and becoming more aligned with China—has been negatively viewed by the two other power players in Indian Ocean geopolitics—the United States and India.

Development activities taking place in Sri Lanka and funded with Chinese financial aid in the late post-independence period—a harbor, an airport, a port city, a port terminal, an international conference hall, an international cricket stadium, and a highway—have had more invisible impacts on Sri Lanka than its concrete debts to China. Having committed to developing more infrastructure to increase its economic potential, Sri Lankan government has fallen into a “pit of debt,” dragging the country to a weak

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<sup>1</sup> John Franklin Cooper, *Chinese Foreign Aid* (Lanham, MD: Lexington Books, 1976), 42–45, 53–55.

economic condition.<sup>2</sup> According to Sri Lanka’s own official records, the country owes its financiers \$64.5 billion—more than \$5 billion of this sum to China.<sup>3</sup> The “country’s debt to GDP [gross domestic product] ratio currently remains between 75 percent and 95.4 percent,” and consumes a significant portion of government revenues to pay down the debt.<sup>4</sup> Although Sri Lanka’s indebtedness to China is only 7.8 percent, infrastructure developed with China’s financial aid extends along the western and southern coastal area, nearly covering one-fifth of the total perimeter length of the country; thus, the infrastructure in place has imposed a far greater impact than its dollar value.

Meanwhile, the newly elected 2015 Sri Lankan administration came under pressure from India to restrict its economic activities with China. As highlighted by Iromi Dharmawardana, the 2015 government received support from the United States and India to topple the former administration with an understanding that Sri Lanka would support the core interests of the United States and India in regional affairs.<sup>5</sup> When the Sri Lankan government temporarily suspended the port city project to accommodate India’s demands, the Chinese government told Sri Lanka “the project should be seen in continuity as the Chinese government had reached agreement with the last government to conduct this project.”<sup>6</sup> Finally, the Sri Lankan administration resumed the project under a new name—Colombo International Finance City—leaving Indian pressure aside.<sup>7</sup>

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<sup>2</sup> Wade Shepard, “Sri Lanka’s Debt Crisis Is so Bad,” *Forbes*, September 30, 2016, <https://www.forbes.com/sites/wadeshepard/2016/09/30/sri-lankas-debt-crisis-is-so-bad-the-government-doesnt-even-know-how-much-money-it-owes/#c6eb6a946082>.

<sup>3</sup> *Ibid.*

<sup>4</sup> *Ibid.*

<sup>5</sup> Iromi Dharmawardana, *Sri Lanka Foreign Policy under Sirisena-Wickramasinghe Government* (Singapore: National University of Singapore, December 2016), 4.

<sup>6</sup> Ranjith Seneviratne, “Sri Lanka Government Holds up Beijing Funded \$ 1.5 Billion Colombo Port City Project,” *Economic Times*, March 6, 2015, <http://www.economicstimes.indiantimes.com>.

<sup>7</sup> Annie Gowen, “Can Sri Lanka’s New Government Break Free from China,” *Washington Post*, August 16, 2015, [http://www.washingtonpost.com/world/asia\\_pacific/](http://www.washingtonpost.com/world/asia_pacific/); “Colombo Port City: What You Need to Know in a Nutshell and More,” Ada Derana, August 22, 2016, <http://www.adaderana.lk/news.php>.

## A. MAJOR RESEARCH QUESTION

Against this background, Sri Lanka has stepped into a complex geopolitical scenario in its foreign affairs in the Indian Ocean Region (IOR). In a way, Chinese financial assistance has resulted in meaningful projects, particularly in infrastructure developments, as well as in expanding and deepening Sri Lankan relations with China. On the other hand, Sri Lanka might now be more beholden to China for infrastructure developed along the coastal belt of two main provinces—the Western and the Southern provinces—with Chinese financial aid. Adding a third dimension to the scenario, the United States and India have now become involved in questioning whether Sri Lanka has become more closely aligned with China. Given Sri Lanka’s geopolitical situation, this thesis asks the following research question: **How can Sri Lanka best balance its foreign relations with Indian Ocean power players—the United States, China, and India—given its heavy indebtedness to China for infrastructure projects?**

## B. SIGNIFICANCE

This study has significance not only for Sri Lanka but the region, considering the importance of the Indian Ocean and the geostrategic prominence of Sri Lanka in the Indian Ocean. Since the turn of the new millennium, South Asia and its IOR have emerged as a focus of international concerns.<sup>8</sup> In this context, the United States as the global super power, China as an emerging global economic power, and India as the main regional power of South Asia have different but specific interests in the Indian Ocean—and its control.

The sea lines in the Indian Ocean are considered among the most strategically important ones in global maritime trade. Nearly “50 percent of the world’s seaborne trade in oil transits through the Indian Ocean choke points,”<sup>9</sup> and following are the approximate percentages of oil transported through different choke points: “4 percent

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<sup>8</sup> Bhagya Seneviratne, *Sri Lanka’s Strategic Relevance in the South Asian Region: An Analysis of India’s Indian Ocean and China’s Maritime Silk Route Initiative* (Ratmalana: KDU publication, November 2015), 94.

<sup>9</sup> *Ibid.*, 95.

passing through Strait of Hormuz,”<sup>10</sup> “35 percent through the Strait of Malacca, and 8 percent through the Bab el Mandeb Strait.” “Sea lines both through the Strait of Malacca and through the Bab el Mandeb Strait are routed through the Indian Ocean”<sup>11</sup>; thus, both sea routes make Sri Lanka equally important because of its close proximity to these sea lines.<sup>12</sup>

“The Maritime Silk Road, or the 21st Century Maritime Silk Route Economic Belt, is a Chinese strategic initiative to increase investment and foster collaboration across the historic Silk Road,”<sup>13</sup> which adds to the Indian Ocean’s significance. “China’s soft power diplomacy” in shaping the Indian Ocean strategic environment has its end routes in the Chinese Maritime Silk Route strategy.<sup>14</sup> As emphasized by Bhagya Seneviratne, China has developed considerable goodwill among the countries in the Indian Ocean, by providing financial assistance on lucrative repayment terms, investing in the major infrastructure projects, as well as supplying military hardware, and extending political support, particularly in the UN Security Council—through its veto powers—as well.<sup>15</sup> Considering China’s overall soft power strategy in the IOR, Sri Lanka has become a strategic partner to China in its Maritime Silk Route strategy.

The Chinese projects in Sri Lanka include a port and an airport, which can influence the geostrategic interests in the IOR.<sup>16</sup> The second project is constructing an offshore city on reclaimed land, a considerable portion of which China holds on a long-term lease basis.<sup>17</sup> Thus, China is going to show its presence in the IOR over the longer

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<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid., 96.

<sup>15</sup> Ibid.

<sup>16</sup> Wade Shepard, “Sri Lanka and China’s Hambantota Debacle May Now Be ‘Too Big to Fail,’” *Forbes*, August 4, 2016, <http://www.forbes.com/sites/wadashpard/2016/08/04/sri-lanka-and-chinas-hambantota-de...>

<sup>17</sup> Ibid.

term, leveraging its connections to and in Sri Lanka, among other places. At the same time, Sri Lanka is now facing difficulties in paying back its debts to China and has become more beholden to China because of its indebtedness.<sup>18</sup> In such a scenario, this study is significant because it examines which options Sri Lanka has to protect its geostrategic interests while benefiting from China's financial assistance.

Contemporary case studies that examine Chinese investments in other countries, particularly in South Asia, and its regional hegemony are significant to identify Chinese behavior in international affairs. China has made financial investments in infrastructure developments—sea ports and inland highway networks—in Pakistan and Bangladesh. Studying how China has financially aided Pakistan and Bangladesh in infrastructure development and how such projects affect the geostrategic interests of the two countries provides significant comparative case studies for this thesis. Further, another case study that examines China's influence on Vietnam—also helps to identify China's hegemonic behavior in a regional context.

### **C. CHINA'S INDIAN OCEAN INTERESTS AND THE IMPORTANCE OF SRI LANKA**

China's foreign policy has evolved from conflict to cooperation from the 20th to the 21st century.<sup>19</sup> China's foreign policy in the 1950s to 1970s was conflictual—"confrontations with the United States in the 1950s and 1960s"<sup>20</sup> and "conflict with Soviet Union in 1960s and 1970s"<sup>21</sup>—changed to a cooperative one in the 1977–1989 period, with the changes in the People's Republic of China (PRC) and Chinese Communist Party, particularly the change of leadership from Mao Tse Tung to Deng Xiaoping.<sup>22</sup> During the period from 1970 to 2009, China increased its diplomatic

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<sup>18</sup> Hugo Cox, "New Sri Lanka Government Hobbled by Old Chinese Debt," January 29, 2015, <http://blogs.ft.com/beyond-brics/2015/01/29/new-sri-govenment-hobbled-by-old-c...>

<sup>19</sup> Thomas W. Robinson and David Shambaugh, *Chines Foreign Policy: Theory and Practice*, (New York: Oxford University Press, 1995), 375.

<sup>20</sup> *Ibid.*, 567.

<sup>21</sup> *Ibid.*

<sup>22</sup> *Ibid.*



relations with up to 156 countries, and showed the following progress in its diplomatic relations: in 1970 with 57 countries, in 1979 with 119 countries, in 1989 with 137 countries, and with 156 countries in 2009.<sup>23</sup> Sri Lanka established diplomatic relations with China in 1957, making it one of the few countries that have had long-term diplomatic relations with China.<sup>24</sup>

As highlighted by Jingdong Yuan, China has more concerns over the IOR mainly because of its maritime interests, seeking to eliminate maritime bottlenecks in the Indian Ocean—at Malacca in particular—in order to ensure an uninterrupted supply of energy to China.<sup>25</sup> China has become the second largest oil consumer after the United States, and its total oil consumption per day is 8 million barrels. China imports a considerable portion of its oil requirement—up from 4.8 million barrels per day in 1993 to 7.1 million barrels per day in 2015—and China predicts that this oil importation will reach 13.1 million barrels per day in 2030.<sup>26</sup> Therefore, China worries about oil sources as well as the elimination of bottlenecks in transporting that oil; thus, the IOR becomes critical for China in meeting its all-important oil needs.

China believes that controlling the IOR is a contributory factor for it to gain regional and global hegemonic status. Yuan, having analyzed the hegemonic status quo from China's perspective, highlights the following aspects as evidence of the importance of the IOR for regional and global hegemonies: first was Napoleon's ambition to control the Indian Ocean as the first step towards global hegemony; second, in the 19<sup>th</sup> century, Britain and Russia collided in Afghanistan over the attempt to control the Indian Ocean; third, in WWII Japan and Germany planned to achieve victories in the Pacific and

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<sup>23</sup> R. Keith Schoppa, *Revolution and Its Past: Identities and Change in Modern Chinese History*, (Upper Saddle River, NJ: Prentice Hall Publications, 2011), 369.

<sup>24</sup> Cooper, *Chinese Foreign Aid*, 12.

<sup>25</sup> John Garofano and Andrea J. Dew, *Deep Currents and Rising Currents: The Indian Ocean and International Security* (Washington, DC: Georgetown University Press, 2013), 157.

<sup>26</sup> *Ibid.*, 158.

European theatres, and then to link up with the Indian Ocean.<sup>27</sup> Therefore, China considers the Indian Ocean historically as an arena of great power competition.<sup>28</sup>

Against this background, China's strategy towards the IOR has been seen as a part of its grand strategy that includes the "string of pearls,"<sup>29</sup> the proposed construction of seaports and pipelines—a link of Chinese geopolitical influences in the Indian Ocean.<sup>30</sup> This nexus of nodes includes the following locations for the ports and pipelines: Hainan Island, Woody Island in the South China Sea, Chitagong in Bangladesh, a 1,200-kilometer (km)-long pipeline from the port of Sittwe in Myanmar to Yunnan province in China, the Gwadar port in Pakistan, Hambantota port in Sri Lanka, and the Kra Isthmus in Thailand.<sup>31</sup> In this context, China has developed and strengthened its friendly relationships with the countries in the IOR. Similarly, Pakistan, Myanmar, Bangladesh, and Sri Lanka have become important partners in China's maritime strategy.<sup>32</sup> China has developed considerable goodwill among the countries in the Indian Ocean—Pakistan, Sri Lanka, and Bangladesh—by providing financial assistance on attractive repayment terms and investing in major infrastructure projects—seaports, airports, and road networks.<sup>33</sup> The main seaports of China's String of Pearls strategy and the key locations in its Silk Road Strategy are shown in Figure 1.

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<sup>27</sup> Ibid.

<sup>28</sup> Ibid.

<sup>29</sup> Ibid., 162.

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

<sup>32</sup> Bhagya Seneviratne, *Sri Lanka's Strategic Relevance in the South Asian Region*, 95–96.

<sup>33</sup> Ibid., 96.



Figure 1. China's String of Pearls as of 2011.<sup>34</sup>

China's String of Pearls strategy appears to be two-pronged—economic and military. As highlighted by Prem Mahadevan, the String of Pearls hypothesis, advanced by the U.S. consulting firm of Booz Allen Hamilton in 2005, asserts that China fuses its economic and military strength in the IOR.<sup>35</sup> Although according to the String of Pearls theory, China appears to be building maritime infrastructure along the IOR periphery, as suggested by Mahadevan, it could covertly facilitate China reaching agreements with local governments—in Pakistan, Bangladesh, Sri Lanka, and Burma—to create dual-use of port facilities to establish naval bases later.<sup>36</sup> Out of three fleets of the People's Liberation Army Navy (PLAN)—North, East, and South Sea Fleets—PLAN is capable of deploying ten warships, one attack submarine, and one replenishment ship in the IOR

<sup>34</sup> Source: Christina Lin, "The New Silk Road: China's Energy Strategy in the Great Middle East," Washington Institute, April 2011, 2, <http://www.washingtoninstitute.org/policy-analysis/view/the-new-silk-road-chinas-energy-strategy-in-the-greater-middle-east>.

<sup>35</sup> Prem Mahadevan, "China in the Indian Ocean: Part of a Large Plan," *CSS Analysis in Security Policy*, no. 156, June 2014, <http://www.css.ethz.ch/contant/dam/ethz/special-interest/gess/cis/center-for-securities-studies/pdfs/CSSAnalyse156.EN.pdf>.

<sup>36</sup> *Ibid.*

on a continuous basis.<sup>37</sup> China has been expanding its South Sea Fleet since 2008.<sup>38</sup> Present indications show that the PLAN aims to gain its carrier operations after 2020, having developed PLAN capabilities up to four Carrier Battle Groups.<sup>39</sup> Nevertheless, China shows its behavior in the Indian Ocean as a “peaceful rise,”<sup>40</sup> by which it concentrates on economic imperatives, particularly in protecting its commodity shipping lanes in the IOR.<sup>41</sup> Therefore, in the overall context of the IOR’s importance to China, Sri Lanka becomes a one of the important pearls in its String of Pearls strategy.

#### **D. LITERATURE REVIEW**

As the research question is a very current one, the literature analysis mainly focuses on conceptual and theoretical aspects of solving debt issues involved with the political economy, power politics—soft and hard power coercion—and international relations. Thus, the literature review conducts an analysis of the following conceptual and theoretical aspects: initially, economic interdependence, debt payments, debt negotiations and renegotiations, as well as debt rescheduling; then, international power politics, particularly influence—through soft and hard power; and finally, how economic issues relate to foreign affairs—alignment, realignment, and nonalignment. The literature on political economy, particularly on economic coercion and economic interdependency, shows how economically weaker countries become the targets of the stronger economies. Further, the ineffective use of foreign aid has mostly led to increasing and uncontrollable debt levels, ultimately putting weaker countries in debt traps. The literature on debt payments, negotiation, renegotiation, and rescheduling shows a variety of options to manage indebtedness under different terms and conditions. However, the heavy indebtedness and the terms and conditions agreed upon by the lender and the borrower open two avenues for economically strong lenders to apply coercion through soft and

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<sup>37</sup> Ibid.

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

<sup>41</sup> Ibid.

hard power. Literature on alignment, realignment, and nonalignment shows the importance of a balanced foreign policy, particularly for weaker countries to maintain a balance in international power politics.

### **1. Economic and Political Economic Literature**

A volume of literature on political economy links stronger economies with economically weaker countries through economic coercion and economic interdependence. Economic coercion—“an act by a sender government or governments to disrupt economic exchange with the target state, unless the target acquiesces to an articulated demand”<sup>42</sup>—appears as a prominent tool in international politics throughout history, and it is equally applicable in the current context. Most of the theories of coercion show a model in which the sender interrupts the status quo and blocks the flow of “economic exchange” with “target country or countries.”<sup>43</sup> Robert O. Keohane and Joseph S. Nye contend that the world has increasingly become economically interdependent based on human aspirations.<sup>44</sup> Literature on interdependence highlights that sensitivity to interdependence affected the United States, Japan, and Western Europe in the years from 1973 to 1975, when oil prices increased.<sup>45</sup> The Sri Lankan economy, too, depends on global trade, and Sri Lanka cannot become isolated from rest of the world, having only established bilateral trade with China.

The effective use of foreign aid would lead aid-receiving countries to recover from the poverty trap; whereas, the ineffective use of foreign aid might put developing countries into debt traps. Literature highlights the volume of foreign aid flowing into developing countries over the last 50 years—US\$2.3 trillion in general—and in the year

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<sup>42</sup> Daniel W. Drezner, *The Hidden Hand of Economic Coercion*, 644, <http://staff.maxwell.syr.edu/cgerard/Fundamentals%20of%20conflicts%20Resolution/Tn>.

<sup>43</sup> Ibid.

<sup>44</sup> Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, (Cambridge, MA: MIT Press, 1987), 3–5.

<sup>45</sup> Ibid., 12.

2006, it reached \$103.6 million.<sup>46</sup> According to public interest theory, developing countries require foreign aid to fill financing or investment gaps, and such aid assists countries to emerge from the so-called “poverty trap.”<sup>47</sup> Therefore, the effective use of foreign aid becomes an incentive for both the government and the citizens of economically weaker countries to recover from the “poverty trap.”<sup>48</sup> By contrast, the ineffective use of foreign aid is very likely to put the aid-receiving countries into a “debt trap.”<sup>49</sup> In the Sri Lankan context—though Sri Lanka has utilized foreign aid obtained from China for infrastructure development—the question remains why such infrastructure failed to become income generating. Such failure has now negatively affected the debt repayments and is putting Sri Lanka in a “debt trap.”<sup>50</sup>

Economic literature on debt buildup shows how the ratio of debt to GDP has imposed pressure on public finance when debt levels increase beyond a reasonable repayable level. The way in which debt is accumulated contributes to its economic impacts and subsequent ways for exiting from the debt.<sup>51</sup> For example, war debt may be less problematic for future growth because high war-time government expenditures decrease rapidly when peace returns.<sup>52</sup> Economic and financial crises also contribute to the increase in debt, and the recent “2008–2009 crisis”<sup>53</sup> has already put considerable strain on debt and public finance in “euro-area countries.”<sup>54</sup> Since the new infrastructure developed in Sri Lanka has not sufficiently strengthened the country’s economy, the Sri

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<sup>46</sup> Claudia R. Williamson, *Exploring the Failure of Foreign Aid: The Role of Incentives and Information*, (Berlin: Springer Science + Business Media, LLC 2009), 1, <http://dri.fas.nyu.edu/docs/IO/12361/WilliamsonRAEAid.pdf>.

<sup>47</sup> Ibid.

<sup>48</sup> Ibid.

<sup>49</sup> Ibid.

<sup>50</sup> Wade Shepard, “Sri Lanka’s Hambantota Port and the World’s Emptiest Airport Go to the Chinese,” *Forbes*, October 28, 2016, <http://www.forbes.com/sites/wadeshepard/2016/10/28/sold-sri-lankas-hambantota-port-an...>

<sup>51</sup> Cristina Checherita and Philipp Rother, “The Impacts of High and Growing Government Debt on Economic Growth,” European Central Bank Paper No. 1237, August 2010, 7.

<sup>52</sup> Ibid.

<sup>53</sup> Ibid., 8.

<sup>54</sup> Ibid.

Lankan economic situation has been strained by debt to some extent.<sup>55</sup> However, the wartime government expenditure changed considerably in 2010 with the termination of internal conflict in mid-2009, and Sri Lanka needed institutional reforms to increase its economic development.<sup>56</sup>

Debt rescheduling correlates the conditions imposed by the lender—either a single country or an international financial organization—with the domestic political situation of the borrower—political stability and political ideologies. Though debt rescheduling appears as another option for debt payment, the domestic environment can negatively influence debt rescheduling.<sup>57</sup> When debt payments exceed contractual obligations, the creditor government and international organizations can intervene to reschedule the debt payments.<sup>58</sup> In such a scenario, both governments—creditor and debtor—must cope with the conditions defined by international organizations or mutual agreements between two countries.<sup>59</sup> The International Monetary Fund and the General Agreement on Tariff and Trade focused on government agreements in the 1970s, and brought officials to discuss bringing down the debt levels.<sup>60</sup> However, domestic factors such as political stability, anti- or pro-capitalist ideology, and corruption have greater influences over options for rescheduling the debts.<sup>61</sup> According to Vinod Aggrawal and Martha Finnemore, debt restructuring is a part of the bargaining process as follows:

International debt rescheduling, both in earlier epochs and our present one, has been marked by a flurry of bargaining. In this process, significant variation has emerged over time and across cases in the extent to which debtors have undertaken economic adjustment, banks or bondholders have written down debts, and creditor governments and international organizations have intervened in negotiations. Debt Games develops and

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<sup>55</sup> Wade Shepard, “China Tells Sri Lanka: We Want Our Money, Not Your Empty Port,” *Forbes*, July 31, 2016, <http://www.forbes.com/sites/wadeshepard/2016/07/31/china-to-sri-lanka-we-want-our-mo...>

<sup>56</sup> K. Renuka Ganegodage and Alicia N. Rambaldi, *Economic Consequences of War: Evidence from Sri Lanka* (Queensland, Australia: University of Queensland, 2013), 2, 5, 6, 10.

<sup>57</sup> Martha Finnemore, *The Purpose of Intervention* (Ithaca, NY: Cornell University Press, 2003), 24.

<sup>58</sup> *Ibid.*, 24.

<sup>59</sup> Keohane and Nye, *Power and interdependence*, 35.

<sup>60</sup> *Ibid.*, 36.

<sup>61</sup> Finnemore, *The Purpose of Intervention*, 24.

applies a situational theory of bargaining to analyze the adjustment undertaken by debtors and the concessions provided by lenders in international debt rescheduling. This approach has two components: a focus on each actor's individual situation, defined by its political and economic bargaining resources, and a complementary focus on changes in their position.<sup>62</sup>

Another way of resolving debt issues is through debt renegotiations. The process of resolving debt crises through debt renegotiation, however, has changed since the 1980s.<sup>63</sup> In the 1970s and 1980s, the creditors were the banks; thus, the "Bank Advisory Committees" consisting of representatives of the major bank creditors were involved in the renegotiations.<sup>64</sup> In contrast, after the mid-1990s, bondholders became the main creditors and had widely differing institutional characteristics.<sup>65</sup> Therefore, debt restructuring took the form of "take-it-or-leave-it" exchange offers.<sup>66</sup> Yet, Sri Lanka has the option of debt renegotiations, either bilaterally with China, or through international financial institutions like the International Monetary Fund (IMF).

## **2. International Power Politics and Foreign Relations**

A volume of literature has been written on soft and hard power, and its relation both with power coercion and foreign relations. As shown by Jan-Philipp Wagner, the concept of hard and soft power, either as individual theories or in combination, relate to foreign policies.<sup>67</sup> Both Wagner and Colin S. Gray, referring to Joseph S. Nye, Jr, show that power is one of the most contestable theories in international power politics, and

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<sup>62</sup> Vinod K. Aggarwal, *Debt Games: Strategic Interaction in International Debt Rescheduling*, (New York: Cambridge University Press, 1996), 2.

<sup>63</sup> *Ibid.*, 671.

<sup>64</sup> *Ibid.*

<sup>65</sup> *Ibid.*

<sup>66</sup> *Ibid.*

<sup>67</sup> Jan-Philipp N. E. Wagner, "The Effectiveness of Soft and Hard Power in Contemporary International Relations," E-International Relations Students, May 14, 2014, <http://www.e-ir.info/2014/05/14/the-effectiveness-of-soft-hard-power-in-contemporary-int...>



scholars and commentators have distinguished soft and hard power in recent decades.<sup>68</sup> Hard power has mainly been achieved through “military threat” or the “use of power,” and by means of “economic menace.”<sup>69</sup> Soft power, the latter version of power politics, involves one country influencing another nation by co-opting others to share the influencer’s values or some key elements in the influencer’s agenda to keep international order and security.<sup>70</sup> As highlighted by Wagner, China has shown its soft power potential through its economic activities, particularly through infrastructure developments—ports and port facilities—under its capitalist state-led model.<sup>71</sup> According to Gray, hard power obliges its interests by mainly calculating the costs and benefits; therefore, the international power players initially employ their soft power options before choosing the hard power approach, or coercion.<sup>72</sup> Applying this scenario to the IOR context shows Sri Lanka that it needs to be cautious about the soft power exerted by China, as well as by India.

Balanced foreign policies become more important as countries have become more interdependent on each other in present day global politics. As highlighted in the literature related to economics and foreign policy, countries struggling over economic issues need to pay more attention to strengthening relations with other countries through healthy foreign policies.<sup>73</sup> International organizations such as the General Agreement on Tariff and Trade (GATT) and the IMF also advise governments to adjust financial policies to accommodate certain changes in domestic and foreign policies.<sup>74</sup> Therefore, either as a member of international organizations or as an individual state, it is important to maintain a balanced foreign policy. Considering the importance of Sri Lanka’s

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<sup>68</sup> Jan-Philipp N E Wagner, “The Effectiveness of Soft and Hard Power in Contemporary International Relations,” May 14, 2014, <http://www.e-ir.info/2014/05/14/the-effectiveness-of-soft-hard-power-in-contemporary-int...>; Colin S. Gray, *Hard Power and Soft Power: The Utility of Military Force as an Instrument of Policy in the 21st Century* (SSI Publications, 2011), v.

<sup>69</sup> Colin S. Gray, *Hard Power and Soft Power: the Utility of Military Force as an Instrument of Policy in the 21st Century* (Carlisle, PA: SSI Publications, 2011), v.

<sup>70</sup> Ibid.

<sup>71</sup> Wagner, “The Effectiveness of Soft and Hard Power in Contemporary International Relations.”

<sup>72</sup> Gray, *Hard Power and Soft Power*, v.

<sup>73</sup> Keohane and Nye, *Power and Interdependence*, 38.

<sup>74</sup> Ibid., 26.

geographical location in the Indian Ocean and its geopolitical role with the IOR power players, Sri Lanka needs a balanced foreign policy to maintain a stable status quo in international power politics.

The Non-Aligned Movement (NAM) became the leading organization in promoting independent foreign policies in international affairs. Out of the “nine features of non-aligned foreign policy” of NAM, the principle of “keeping the independent foreign policy for each nation”<sup>75</sup> was considered as one of the most important principles promoting balanced foreign policies for the countries that neither belonged to the socialist nor the capitalist bloc during the Cold War. Nonalignment arose from the “desire of new states to keep their foreign policies independent from the possible pressures from the super powers” without aligning with any power bloc that would limit the “freedom of action” of a state.<sup>76</sup> Furthermore, nonalignment prevents nations from becoming biased in their foreign policy based on narrow national interests.<sup>77</sup> Therefore, nonalignment acts as a “source of independence and freedom of action”<sup>78</sup> for any country despite of its size, wealth, and power.<sup>79</sup> Thus, nonalignment appears as the favored principle for Sri Lanka’s foreign policy considering the interests of IOR power players in today’s context.

Alignment, realignment, and bandwagoning are separate but interrelated theories in the balance of power. Steven R. David explains how alignment and realignment occur in international politics.<sup>80</sup> Alignment means that “one state brings its policies with the cooperation with another state to achieve mutual security requirements.”<sup>81</sup> The balance-of-power theory explains how and why states align with other states to protect

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<sup>75</sup> “Features of Non-aligned Foreign Policy,” Your Article Library, 2016, <http://www.yourarticlelibrary.com/international-politics/features-of-non-aligned-foreign-policy/48509/>.

<sup>76</sup> Ibid.

<sup>77</sup> Ibid.

<sup>78</sup> Ibid.

<sup>79</sup> Ibid.

<sup>80</sup> Steven R. David, *Explaining Third World Alignment* (New York: Cambridge University Press, 1991), 232, and *Choosing Sides: Alignment and Realignment in the Third World* (Baltimore: Johns Hopkins University Press, 1991), 3–5.

<sup>81</sup> David, *Explaining Third World Alignment*, 233.

themselves.<sup>82</sup> Further, balance-of-power theory shows the reasons for states to align with other states when a particular state recognizes the emergence of hegemonic power or power coercion that threatens its survival.<sup>83</sup> Bandwagoning in international relations is a strategy employed by weak states against a strong state by aligning with one or more other stronger states to reduce the disproportionalities, and to defeat the adversary together with the stronger partner(s).<sup>84</sup> Two examples of bandwagoning behaviors are the alignment of Finland with the Soviet Union after WWII and Egypt's turn toward the United States after the October 1973 war.<sup>85</sup> David shows how Egypt realigned with the United States, changing from its former alignment with the Soviet Union, as follows:

From 1955 until the 1973 October War, the Soviet Union had provided more economic and military assistance to Egypt than any other non-communist states. Such support assisted Egypt to lead the Arab World against Israel. Though Egypt had reached the Soviet support at its peak; Anwar Sadat decided to forsake his alignment with Moscow and to realign with the United States, even though the United States was an ally of Israel.<sup>86</sup>

David highlights that although bandwagoning predicts the opposite result of balancing, states align or realign as a reaction to external threats in order to survive.<sup>87</sup> In the Sri Lankan context, if China were to exert its economic soft power, that might compel Sri Lanka to make an alignment or realignment with one of the other power players in the IOR.

## **E. POTENTIAL EXPLANATIONS AND HYPOTHESIS**

The conditions generated by the research question, and the concepts and theories distilled from the literature review suggest criteria to formulate probable hypotheses for the research question. Since Sri Lanka failed to convert the infrastructure developed from

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<sup>82</sup>Ibid., 234.

<sup>83</sup> David, *Choosing Sides: Alignment and Realignment in the Third World*, 4.

<sup>84</sup> John J. Mearsheimer, *The Great Tragedy of Great Power Politics* (New York: Norton Publications, 2001), 139.

<sup>85</sup> David, *Choosing Sides*, 55.

<sup>86</sup> Ibid.

<sup>87</sup> Ibid., 5.

Chinese financial aid to income generating mechanisms, Sri Lanka has become increasingly beholden to China by the contractual obligations included in the bilateral agreements. The research question considers the following factors: first, the geostrategic interests of Sri Lanka in the Indian Ocean; second, the exertion of soft and hard power, particularly from China, and pressure from the United States and India in response to Sri Lanka's alignment with China; and third, the necessity for Sri Lanka to keep a balanced relationship with all three power players in the IOR. The analysis of the literature shows other key areas that need to be considered when formulating hypotheses for the research question. Such key areas emerged from the literature review: 1) the use of foreign aid to escape the poverty trap without being caught in a debt trap, 2) the importance of managing pressure from hard and soft power coercion, 3) the potential of nonalignment as a principle to maintain a balance in international affairs, and 4) an evolving nonalignment strategy that will ensure independence in foreign policy.

The emerging criteria—discovered from the conditions generated by the research question, and the concepts and theories distilled from the literature review—show a set of dependent and independent variables to formulate two hypotheses, or a central hypothesis for the research question. The failure or success of integrating nonalignment as a principle, and managing soft and hard power coercion are the two independent variables for this thesis. Both of these independent variables change in response to how Sri Lanka manages its bilateral affairs with China in the process of debt renegotiation. Sri Lanka's geostrategic interests, and its alignment and realignment with major power players in the Indian Ocean become dependent variables for the research. Depending on the behavior of the independent variables—integrating nonalignment, and managing soft and hard power coercion—Sri Lanka's geostrategic interests either become balanced or imbalanced with the power players, and such changes in geostrategic interests would invite Sri Lanka to either align or realign with any of the major power players in the IOR. Therefore, the dependent and independent variables generate the following central hypothesis that rests at the heart of the present research:

The extent to which the Sri Lankan government adopts nonalignment as the governing principle of its foreign policy when establishing new

bilateral agreements with China—to operate the new Hambantota harbor, the Mattala airport, the proposed economic zone in Hambantota, and to conduct commercial activities in the Colombo port city—will push Sri Lanka into one of two situations: 1) the successful adoption of nonalignment will balance Sri Lanka’s geostrategic interests with major power players in the IOR—the United States, China, and India; and 2) a failure to adopt nonalignment will make Sri Lanka subject to China’s coercive soft and hard power, compelling Sri Lanka to align more actively with the United States and India to keep its geostrategic interests balanced.

## **F. RESEARCH DESIGN**

This research evaluates the historical evidence and recent developments, and conducts an analysis of Sri Lanka’s current situation. It also incorporates case studies examining the possible factors that affect the balance of geostrategic interests versus conditions that enable China to exert pressure through soft and hard power. Evaluation of the historical evidence on the bilateral relationship between Sri Lanka and China provides background information to test the probabilities of the hypothesis. Furthermore, an analysis of the reasons for Sri Lanka to choose China as the financial partner, and how Sri Lanka has addressed its geostrategic interests with new infrastructure developments enabled by Chinese financial aid and investments, provides evidence for or against the two dependent variables. Further, a close examination of the debt renegotiation effort and its latest progress provides evidence to test the two conditions of the central hypothesis—success or failure to adopt nonalignment, and the corresponding effects—against recent developments.

Three case studies provide evidence of China’s geostrategic interest in the IOR by expanding financial aid and developing infrastructure similar to the case of Sri Lanka, and China’s hegemonic behavior with Vietnam and in the South China Sea. The first two case studies, Pakistan and Bangladesh, resemble the Sri Lankan model: China’s financial aid for the construction and modernization of seaports—Gwadar in Pakistan and Chittagong in Bangladesh. Thus, two of the case studies provide evidence that balancing or unbalancing the geographical interests of the two countries favors China, and offers possibilities for China to create hegemonic conditions in the IOR. The third case study examines the regional hegemonic behavior of China in relation to Vietnam, and provides

possible implications for China's hegemonic behavior in the second condition of the hypothesis—Sri Lanka failing to adopt nonalignment as the main principle of its foreign policy.

This research makes a threefold analysis: Sri Lanka's foreign policy, the interests of the two other power players in the IOR—the United States and India—and the findings of the research. The analysis of Sri Lanka's foreign policy shows the two faces of Sri Lanka's foreign policy: nonaligned foreign policy assisted it to maintain balanced relations with Indian Ocean power players in the late 1950s to early 1970s; whereas, the alignment and the realignment in the late 1970s and more recently have had other effects on Sri Lanka. An analysis of the U.S. and Indian interests in the Indian Ocean highlights the following key aspects: first, how the U.S. and Indian strategy in the IOR affects Sri Lanka; second, what interests the United States and India have in Sri Lanka; and lastly, what options Sri Lanka has to become nonaligned through realignment, protect itself against possible pressure from China? Analysis of the findings from historical evidence and from case studies tests the hypothesis for its probability.

The last part of the thesis concentrates on recommendations. Recommendations are threefold: first, recommendations unique to Sri Lanka for managing a balanced relationship with all the IOR power players while repaying its debts to China; second, a model for weaker economies to prevent them getting trapped in power plays and hegemonic effects; and finally, recommendations for suitable areas in which to conduct future studies. This thesis concludes by explaining the critical need for nonalignment in Sri Lanka's foreign policy.

## **G. ORGANIZATION OF THESIS**

This thesis has five chapters, and incorporates the three main elements of research design into these five chapters. Following the introductory chapter, Chapter II has three sections evaluating historical evidence and recent developments in Sri Lanka's debt renegotiation. The sections consider the bilateral relationship between Sri Lanka and China, Sri Lanka's choice of China as its financial partner in the post-2005 period, and the progress of debt renegotiation. The first section of Chapter II examines the historical

relationship between Sri Lanka and China, and evaluates how the bilateral relationship affected Sri Lanka's geostrategic interests in the early post-independence period. The second section highlights the reason for Sri Lanka to choose China as its financial partner in the late post-independence period—post-2005—and how Sri Lanka has addressed its geostrategic interests with new infrastructure developments through Chinese financial aid and investments. The third section studies the progress of the debt renegotiation efforts with China.

Chapter III is organized in two sections, containing South Asian and Southeast Asian case studies. In the first section, two countries in South Asia where China has invested to develop seaports and road networks—Pakistan and Bangladesh—are examined from different points of view. First, I examine how Chinese financial aid and infrastructure developments have influenced the geostrategic interests of the two countries. In the second section, I analyze the hegemonic behavior of China in the South China Sea, using Vietnam as the example.

Chapters IV and V are the analysis and the recommendations chapters, respectively. The analysis chapter offers evidence supporting the likelihood of the two conditions of the central hypothesis, based on following: 1) the shift of Sri Lanka's foreign policy from nonalignment to alignment and then to realignment, and 2) the interests of the United States and India as the power players in the Indian Ocean and on Sri Lanka. The analysis focuses on the likelihood of Sri Lanka balancing its geostrategic interests and preventing China's power coercion in the IOR (or the converse), as outcomes of debt renegotiation. Chapter V offers three types of recommendations—a Sri Lankan-specific recommendation, a recommended model for weaker economies, and recommended areas for future studies. The thesis concludes by recommending Sri Lanka become nonaligned through realignment.

## **II. THE BILATERAL RELATIONSHIP BETWEEN SRI LANKA AND CHINA: AN ANALYSIS OF HISTORICAL AND CONTEMPORARY EVIDENCE**

This chapter broadly addresses the historical and contemporary evidence on bilateral relations between China and Sri Lanka, and evaluates the reasons for and impacts of Sri Lanka selecting China as its main financial partner in recent development programs. This chapter further examines the nature and the development of bilateral relations between China and Sri Lanka, and investigates whether China had exercised undue influence over Sri Lanka in the past, in the pre-colonial period and in the post-independence period. Chapter II contains three sections. The first briefly covers the salient aspects of the systematic development of the bilateral relationship from the first century until Sri Lanka became a colony. The second section evaluates the bilateral relationship in trade, financial assistance, and infrastructure developments in terms of Chinese aid in the post-independence period, particularly from 1948 to 2005 and from 2005 to 2017. The third section covers recent development efforts undertaken by the two countries—the southern terminal of the Colombo harbor, southern highway, Hambantota harbor, airport, international cricket stadium, and international conference hall—together with the outcome of the debt renegotiation process, through which Sri Lanka enters into a new bilateral venture with China by leasing the newly constructed harbor to China.

### **A. SYSTEMATIC DEVELOPMENT OF THE BILATERAL RELATIONSHIP FROM THE FIRST CENTURY UNTIL SRI LANKA BECAME A COLONY**

Historically, the relationship between China and Sri Lanka goes back to the first and second centuries, and it could be observed that the bilateral relationship between the two countries has gradually increased since the fourth century. As highlighted by B.E.S.J. Bastianpallai, kings of Sri Lanka visited China in the first and second centuries, and these visits can be interpreted as a means of maintaining diplomatic relations between Sri Lanka and China in olden days. These visits began with Sri Lankan King Vasabha and extended to King Kuda Naga in the first century, and from King Sri Naga I to King



Mahasena in the second century, meeting with the Ming Dynasty in China.<sup>88</sup> From the fourth century onward, the religious factor, too, contributed to the development of the bilateral relationship between Sri Lanka and China; the storied Chinese traveler Faxian and a team of monks of the Jin Dynasty not only visited Sri Lanka more than once, but also stayed in the country for some time.<sup>89</sup> Indeed, Faxian's visit to Sri Lanka in 411 is recorded as the longest sojourn by a Chinese delegation in Sri Lanka, lasting for two years.<sup>90</sup> Similarly, a number of Sri Lankan Buddhist priests' delegations—Bhikkus and Bhikkunis—visited China, and these visits reflect mainly the religious and cultural bonds between the two countries, particularly in the fifth to eighth centuries.<sup>91</sup>

Apart from the diplomatic relations between the kings of both countries and the religious bonds, the trade activities between the two countries also began in the first and second centuries. In the first century, a Chinese navigator—Zheng of Ming Dynasty—sailed to Sri Lanka many times, and established the initial foundation for trade between the two countries.<sup>92</sup> Between 406 and 762, most trade was in the form of exchanging goods, and mostly Sri Lanka's pearls, precious stones, and filigreed gold had been exchanged for Chinese silk, aloes, clove wood, and sandalwood.<sup>93</sup> The bilateral trade between China and Sri Lanka declined from the eighth century onward when the “Malay empire of Sri Vijaya” took up frequent commercial activities with China.<sup>94</sup> Sri Lanka resumed its trade with China from the mid-15th century, and the following items were

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<sup>88</sup> B. E. S. J. Bastiampillai, *China-Sri Lanka: Trade and Diplomatic Relations including the Voyages of Cheng-Ho*, 1, [http://en.unesco.org/silkroad/sites/silkroad/files/knowledge-bank-article/china\\_sri\\_lanka\\_trade\\_and\\_diplomatic\\_relations\\_including\\_the\\_voyages\\_of\\_cheng\\_ho.pdf](http://en.unesco.org/silkroad/sites/silkroad/files/knowledge-bank-article/china_sri_lanka_trade_and_diplomatic_relations_including_the_voyages_of_cheng_ho.pdf).

<sup>89</sup> Wang Weihua, “China-Sri Lanka Friendly Relationship: Historical Tradition, Realistic Dynamics, and Brighter Futures,” <http://www.defseminar.lk/media-centre/pres/Dr%20Wang%20Weihua%20.doc.pdf>.

<sup>90</sup> Bastiampillai, *China-Sri Lanka: Trade and Diplomatic Relations including the Voyages of Cheng-Ho*, 1.

<sup>91</sup> *Ibid.*, 1–3.

<sup>92</sup> Saman Kelegama, *China-Sri Lanka Economic Relations, An Overview* (Los Angeles/London/New Delhi/Washington, DC: SAGE Publications, 2014), 132.

<sup>93</sup> Bastiampillai, *China-Sri Lanka: Trade and Diplomatic Relations including the Voyages of Cheng-Ho*, 6.

<sup>94</sup> *Ibid.*

added to bilateral trade during this period: cotton cloth, rattan ware, golden orioles, black pepper, and herbal medicine.<sup>95</sup>

While resuming its bilateral trade with Sri Lanka in the 15th century, China had persuaded Sri Lanka to accept its supremacy through overt and covert actions, and such activities could be identified as China's influence over Sri Lanka in the historical perspective. Bastianpallai, based on Chinese sources, shows that the Chinese Ming Emperor sent an envoy led by Yung Lo and Cheng Ho had tried to get the sacred Tooth Relic to China, and the Chinese delegation had also tried to set up an inscription—recording Chinese presence—in the southern part of Sri Lanka in 1409. As highlighted by Bastianpallai, the Chinese Ming Emperor tried to approach the Sri Lankan king through his close nobles, having given them bribes and gifts.<sup>96</sup> Once this overt act and covert intentions were revealed to the Sri Lankan King—Alagathkonara—he attempted to capture Cheng Ho, thus challenging China's imperial power.<sup>97</sup> As a result, later in early 411, Cheng Ho captured Alagathkonara and his family after a battle, and the Chinese emperor tried to replace Alagathkonara with someone who would favor the emperor.<sup>98</sup> In the mid-15th century, King Prakramabahu IV firmly united Sri Lanka; thereafter, China could not further interfere with Sri Lankan domestic affairs.<sup>99</sup>

## **B. BILATERAL TRADE AND FINANCIAL AID IN THE EARLY POST-INDEPENDENCE PERIOD FROM 1948 TO 2005**

Sri Lanka managed to keep its head above water—avoided being heavily in debt—while maintaining a high level of bilateral relations, conducting favorable trade, as well as obtaining financial assistance for its infrastructure developments from China in the early post-independence period from 1948 to 2005. This section shows the following salient features of bilateral relations between China and Sri Lanka in the early post-independent period and which have continued more than over five decades. First, China

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<sup>95</sup> Ibid., 13.

<sup>96</sup> Ibid., 10–11.

<sup>97</sup> Ibid.

<sup>98</sup> Ibid., 12.

<sup>99</sup> Ibid., 13.

recognized Sri Lanka's foreign policy as a nonaligned one during the Cold War period. Second, China used a soft power policy in its economic activities with Sri Lanka. Third, Sri Lanka obtained financial aid from China to develop well established, ongoing industries, such as rubber, and kept its debts within a manageable level; indebtedness from the 1950s to 1980s remained at US\$ 130 million. Finally, there was the likelihood of China's plans to get Sri Lanka involved in crisis situations in the South Asian region, such as China's plan to open a second front through Sri Lanka in the Indo-China war. Sri Lanka's ability to manage its debt level with China prevented Sri Lanka from becoming beholden to China in the early post-independence period. Further, Sri Lanka's nonaligned foreign policy appeared as a strong advantage to manage crucial situations when Sri Lanka had to become involved in the regional/subregional power politics in Asia and South Asia. Such situations included the Indo-China War, and China's military strategy to hold Sri Lanka among its military options based on economic commitments. Despite all this, Sri Lanka managed to keep its debt level manageable while maintaining its bilateral relations with China in the early post-independence period.

Bilateral relations between China and Sri Lanka, in the early post-independence period began immediately after Sri Lanka won independence from Britain in 1948, and those relation continued to improve throughout the early post-independence period. Although Sri Lanka established its diplomatic relations with China in 1957, in the very second year of Sri Lanka's independence—1950—the two countries reestablished formal relations.<sup>100</sup> With the establishment of the People's Republic of China, Mao wanted to restore China's former place in the world, and China considered Sri Lanka as a potential partner in this pursuit for two reasons: 1) Sri Lanka remained nonaligned with either of the power blocs; 2) Sri Lanka is geographically close to India.<sup>101</sup> Sri Lanka's role in organizing the second Afro-Asian conference also highly contributed to broadening the relationship between China and Sri Lanka in the early post-independence period.<sup>102</sup> As highlighted by John Franklin Cooper, Chinese leaders wanted to strengthen bilateral

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<sup>100</sup> Cooper, *Chinese Foreign Aid*, 12.

<sup>101</sup> *Ibid.*, 11, 53.

<sup>102</sup> *Ibid* 54.

relations with Sri Lanka around 1962, when the border war took place with India, with a view to opening a possible second front against India.<sup>103</sup> By the beginning of the 1970s, bilateral relations between the two countries seemed drastically improved and continued toward the latter part of the 1970s until domestic political changes occurred: the change of ruling political party in the 1977 elections.<sup>104</sup> The state visit by Sri Lankan Prime Minister, Mrs. Sirimavo Bandaranayke, to China in 1972 became significant because China-Sri Lanka economic relations started further strengthening with the Chinese bilateral aid package that included the construction of an international conference hall—Bandaranayke International Memorial Conference Hall—as a donation from China.<sup>105</sup>

Sri Lanka and China established bilateral trade and some trade agreements in the early post-independence period. The “Rubber–Rice pact”<sup>106</sup> signed between China and Sri Lanka in 1952 is considered as the landmark for the beginning of bilateral ties in the modern history of early post-independence period of Sri Lanka.<sup>107</sup> Through this pact, Sri Lanka agreed to import “270,000 metric tons of rice”<sup>108</sup> every year, and China purchased “50,000 tons of rubber”<sup>109</sup> each year, and the two countries signed the initial agreement for a period of five years, and the agreement was subsequently renewed every five years thereafter until 1982.<sup>110</sup> This agreement lasted nearly 30 years, mainly because Sri Lanka had the comparative advantage by reaping the maximum financial benefit, as China was offering 40 percent more price for rubber than the existing market price, and was selling rice for less than a third of the market value.<sup>111</sup> In 1958, the two countries signed a maritime agreement that ensured commercial and passenger service vessels between the

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103 Ibid.

104 Ibid.

105 Kelegama, *China-Sri Lanka Economic Relations*, 132.

106 Ibid.

107 Ibid.

108 Ibid.

109 Ibid.

110 Ibid.

111 Ibid.

two countries be treated based on “Most Favored Nation (MFN)” status.<sup>112</sup> When Sri Lanka experienced a food shortage in the early 1970s, China increased its rice quota exported to Sri Lanka in 1973 on the basis of paying its value in the following years’ rubber exportation, and 40,000 tons of Chinese rice reached Sri Lanka shortly. Furthermore, in the next year, China provided more than 50 percent of food aid to Sri Lanka, which helped Sri Lankan government to manage the foods requirement in the country.<sup>113</sup>

China’s financial aid to Sri Lanka in the early post-independence period reached to \$130 million, and financial aid was provided in the forms of financial aid and infrastructure development assistance. Sri Lanka became the second largest recipient of Chinese aid to non-communist Asian countries, and Table 1 shows how China has accommodated Sri Lanka in its financial aid program.<sup>114</sup> Table 2 shows a summary of the main financial aid programs, indicating the type of financial aid and the nature of the projects established between the two countries.

Table 1. China’s Financial Aid to Non-communist Asian Countries from 1957 to 1973.<sup>115</sup>

<b>Nation</b>	<b>Total Amount (in US\$ Millions)</b>	<b>Percentage</b>
Cambodia	97.5	10.4
Nepal	44	4.7
Indonesia	126	13.4
<b>Sri Lanka</b>	<b>130.70</b>	<b>13.9</b>
Burma	86.20	9.2
Laos	32	3.4
Pakistan	342	36.6
Afghanistan	75.5	8.1
Total	993.9	99.7

<sup>112</sup> Ibid.

<sup>113</sup> Cooper, *Chinese Foreign Aid*, 55.

<sup>114</sup> Ibid., 45.

<sup>115</sup> Ibid.

Table 2. Summary of Types of Financial Aid Provided by China to Sri Lanka from 1957 to 1973.<sup>116</sup>

<b>Year</b>	<b>Type of Financial Aid</b>	<b>Amount (in US\$ Millions)</b>	<b>Nature of Project</b>
1957	Grant	15.8	To facilitate economic development
1958	Interest free loan	10.5	Construction of a cotton mill
1957	Flood relief grant	1.2	Humanitarian
1958	Loan	4.2	
1970	Loan	8.3	Construction of a textile factory
1971	Interest free loan	31.5	To overcome economic issues
1972	Loan	5	To resolve the foreign exchange deficit
1972	Interest free loan	52	Construction of an integrated textile industry
1973	Credit	1.7	Two cargo ships supplied on credit basis
<b>Total</b>		<b>130.7</b>	

In the 1980s and 1990s, China-Sri Lanka bilateral relations remained unchanged; however, China became one of the few countries that provided military assistance—military hardware and ammunition—to Sri Lanka. Although there was a change in the domestic politics in Sri Lanka—a change of government from the Sri Lanka Freedom Party (SLFP) to the United National Party (UNP)—and, despite UNP’s tilt toward the United States and the West, the former bilateral economic projects between the two countries continued. In addition, China became one of the main arms and ammunition

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<sup>116</sup> Source: Ibid.

providers to Sri Lanka since the mid-1980s in the country's internal fight against the Liberation Tigers of Tamil Eelam (LTTE).<sup>117</sup> Beyond military assistance, China became the only country to "openly question India's intervention"<sup>118</sup> in Sri Lanka in 1987 over the issue of Sri Lanka's internal conflict. At the time, India violated Sri Lanka's airspace and dropped food items in the Northern parts of Sri Lanka while the Sri Lankan military was conducting a decisive military operation against the LTTE.<sup>119</sup> As noted by Thomas Wheeler, though China became a less important trade partner for Sri Lanka in the 1990s, it remained a very large arms dealer with Sri Lanka.<sup>120</sup> Even so, bilateral economic activities maintained a comparatively lower profile. The following are three examples reflecting the continuity of bilateral relations in cultural and economic activities in the 1980s and 1990s: 1) in 1981, the two countries established the Sri Lanka-China Society to strengthen the friendship links between the two nations; 2) the Sino-Sri Lanka Joint Trade Committee was established in 1984, and 3) the Sri Lanka-China Business Cooperation was established in 1994.<sup>121</sup>

### **C. BILATERAL ACTIVITIES IN THE LATE POST-INDEPENDENCE PERIOD FROM 2005 TO 2015**

Two major reasons existed for Sri Lanka to look to China as its most favored financial partner in the late-independence period. Sri Lanka was becoming a middle income country, and fewer conditions were associated with China's bilateral financial activities. Yet, these apparent advantages ultimately led Sri Lanka to suffer from two types of unintentional consequences: first, the consequences of economic soft power— heavy indebtedness to China; and second, the consequences of hard power—military involvement. The facts highlighted in this section show a steady flow of diplomatic

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<sup>117</sup> Thomas Wheeler, *China and Conflict-affected States between Principle and Pragmatism*, Sri Lankan Case Study, January 2012, 9–10, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113449.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113449.pdf).

<sup>118</sup> Ibid.

<sup>119</sup> Ibid., 10.

<sup>120</sup> Ibid.

<sup>121</sup> Kelegama, *China-Sri Lanka Economic Relations*, 132.

relations, but a sudden increase in financial activities between China and Sri Lanka in the late post-independence period. The specific locations where the economic activities and economic-related infrastructure developments have taken place—Colombo harbor, Colombo port City, and port and airport at Hambantota—particularly along the western and southern coasts of Sri Lanka, show how China’s economic activities concentrated in the western and southern parts of Sri Lanka. At the same time, the southern highway—constructed with Chinese financial assistance—has physically connected the new economic hubs to each other. Thus, in a larger picture, China’s covert soft power activities, on one hand, made Sri Lanka beholden to China through its heavy indebtedness. On the other hand, China has overtly dominated the western and southern coasts of Sri Lanka in terms of economic activities. Moreover, Sri Lanka realized how China has connected its soft power with its hard power when Chinese submarines surfaced at the terminal operated by CMPH in the Colombo harbor in 2014.

Bilateral activities between China and Sri Lanka regained their momentum under Sri Lanka’s post-2005 administration, and the Golden Jubilee Celebrations of bilateral relations between the two countries became a landmark in the late post-independence period.<sup>122</sup> An acceleration of bilateral activities took place in 2007, when Sri Lankan President Mahinda Rajapaksha visited China, signing eight bilateral agreements and Memoradums of Understanding (MOU) that are shown in Table 3.<sup>123</sup>

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<sup>122</sup> Ibid., 132.

<sup>123</sup> Ibid.



Table 3. Agreements and MOUs established between China and Sri Lanka in 2007.<sup>124</sup>

Agreement/MOU	Nature of the Agreement/MOU	Effect
Agreement on Economic and Technical Cooperation between China and Sri Lanka	Electronics and Technical transfers	Economic Soft Power
MOU between Ministry of Constructions of China and the Ministry of Urban Development and Sacred Area Developments of Sri Lanka	Sacred Area Development in Sri Lanka	Political Soft Power
Agreement between the city of Guangzhou of China and District of Hambantota of Sri Lanka	Establishment of a Friendship City Relationship	Political Soft Power
MOU between the Investment Promotion Agency of Ministry of Commerce of China and Board of Investment of Sri Lanka	Two-way investment promotion	Economic Soft Power
MOU between the Film Bureau of the State Administration of Radio, Film and Television of China and the National Film Cooperation of Sri Lanka	Cooperation in the Film Industry	Social & Economic Soft Power
MOU between the Red Cross Society of China and the Eye Donation Society of Sri Lanka	Technical and Technology Transfer	Political Soft Power
MOU between the Chinese Academy of Agriculture Mechanization Science and Department of Agriculture of the Ministry of Agriculture of Sri Lanka	Technology Transfer	Economic Soft Power
MOU between the Beijing Foreign Studies University of China and University of Kelaniya of Sri Lanka	Academic Exchange	Political Soft Power

China's financial aid in terms of loans and grants has exceeded \$3.8 billion in the late post-independence period. Table 4 shows the breakdown of China's aid to Sri Lanka, particularly between 2008 and 2012. Sri Lanka leaned toward China for financial assistance for three main reasons: 1) the possibility of quick loans with fewer conditions; 2) the changes in regulations for providing funds for Sri Lanka after becoming a "lower

<sup>124</sup> Source: Ibid., 131–149.

middle-income country” in the post-2008 period,<sup>125</sup> and 3) the United States and some of Western countries suspended aid granted in the mid-2000s. The United States suspended aid; Germany reduced bilateral aid, and the UK suspended \$3 million in debt relief.<sup>126</sup> According to the 2012 annual report of Sri Lanka’s Ministry of Finance and Planning, the financial aid obtained from China has been invested in road construction, power and energy, ports and shipping, and aviation, as shown in Figure 2. These infrastructure development projects include several aforementioned ones, as well as renovation of road networks—particularly, the northern main supply road. Areas where these projects have come up are shown in Figure 3.

Table 4. Loans and Grants Sri Lanka Obtained from China from 2009–2012.<sup>127</sup>

Year	In US\$ Millions		
	Loans	Grants	Total
2009	1,204	2	1,206
2010	821	8	829
2011	760	-	760
2012	1,056	-	1,056
Total	3,841	10	3,851

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<sup>125</sup> Ibid., 132.

<sup>126</sup> Wheeler, *China and Conflict-affected States between Principle and Pragmatism*, 2,

<sup>127</sup> Source: Ministry of Financial and Planning, Sri Lanka, Annual Report (2012).

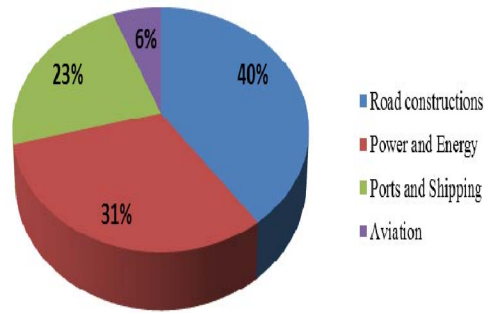


Figure 2. Distribution of Loans in Different Development Sectors in 2012.<sup>128</sup>

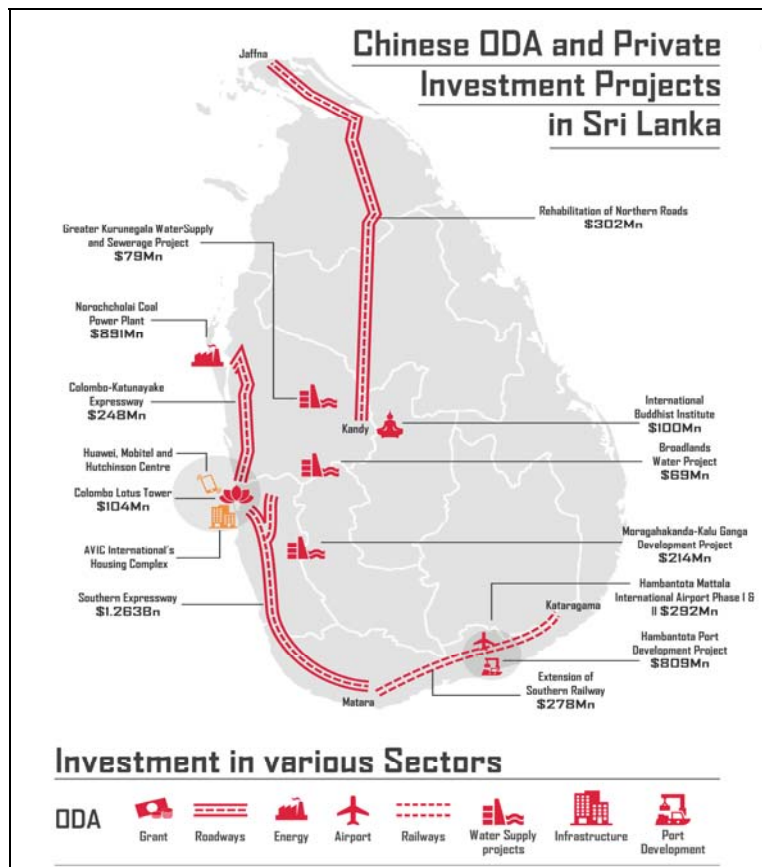


Figure 3. Development Projects Conducted under the Chinese Financial Aid as of 2012.<sup>129</sup>

<sup>128</sup> Source: Ministry of Financial and Planning, Sri Lanka, Annual Report (2012).

<sup>129</sup> Source: <http://www.gatewayhouse.in/chinese-investments-sri-lanka/>.

Sri Lanka established a joint venture with China in 2013 to build and operate a port terminal in the Colombo harbor, and this investment provided China a considerable royalty from maritime activities conducted in the main commercial harbor in Sri Lanka. This arrangement ultimately led to security concerns in the IOR. Colombo International Container Terminals Ltd (CICT) was a joint venture between China Merchants Port Holdings Company Limited (CMPH) and the Sri Lanka Ports Authority (SLPA), where CMPH holds 85 percent of the partnership, and the balance is held by the SLPA.<sup>130</sup> This project, started in 2014, has been implemented as a Build Operate and Transfer Agreement (BOTA) with a 35-year-long lease for the CMPH under the Colombo South harbor expansion.<sup>131</sup> The new terminal having a two-lane access channel to Colombo Harbor is capable of handling freight in the volume of 2.4 million Twenty-foot Equivalent Units (TEU) annually; thus, on one hand, it has increased the overall freight handling capacity of the Colombo harbor.<sup>132</sup> On the other hand, having 85 percent of the operational rights in the new terminal, China maintains a royalty in the terminal operations. However, as noted by Jeff M. Smith, China's investment in Colombo South Harbor correlates with the repayment of loans taken to construct the Hambantota harbor—US\$ 30 million inclusive of its interest, annually; when the Chinese president visited Sri Lanka in 2014 he agreed to ease loan conditions on the basis of constructing and operating a new terminal in the Colombo harbor.<sup>133</sup> Further, China's operations in the Colombo harbor alarmed India, particularly when Chinese conventional submarines surfaced twice at the terminal operated by CMPH in the Colombo harbor—once in September 2014 and again in November 2014.<sup>134</sup> By showing its underwater capabilities in the Indian Ocean, China appears to be using its bilateral economic ties with Sri Lanka

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<sup>130</sup> China Merchant Port Holdings Company Limited, “Colombo International Container Terminals, 2012–2017,” CICT, <http://www.cict.lk/our-company.php>.

<sup>131</sup> *Ibid.*

<sup>132</sup> Asian Development Bank, “Sri Lanka: Proposed Colombo Port South Harbor Development Project,” Summary Environmental Impact Assessment Project Number: 39431, July 2006, 2.

<sup>133</sup> Jeff M. Smith, “China’s Investments in Sri Lanka: Why Beijing Bonds Come at a Price,” *Foreign Affairs*, May 12, 2016, 4, <http://www.foreignaffairs.com/articles/china/2016-05-23/chinas-investment-sri-lanka>.

<sup>134</sup> *Ibid.*, 4, 5.

as part of its military strategy, a reminder of its plans to use Sri Lanka to open a second front in the 1962/63 Indo–Chinese War.

The port-city project initiated in 2014 with an estimated value of US\$ 1.5 billion together with previous financial commitments—\$3.85 from 2009 to 2012—increased the total Chinese financial aid in Sri Lanka to a total of US\$ 5.3 billion.<sup>135</sup> Sri Lanka entered into another joint venture project with China in 2014—the Colombo port city project—an offshore city constructed in the vicinity of the Colombo harbor. According to the deal, China holds 46 percent of its ownership for 99 years through a long lease.<sup>136</sup> The port city has been designed as an alternative to the highly congested Colombo city, and it is to be developed as an “iconic business city” with the following features: “shopping and office complexes, water sports areas, a mini golf course, hotels, apartments, recreation areas, and a luxury yacht marina.”<sup>137</sup> According to the 2014-plan, China Harbor Engineering Company (CHEC)—the master developer of the project—owns 46 percent in reclamation, 108 out of 233 hectares on a 99-year lease, and the Sri Lankan government owns the balance of the area—mainly allocated for the public and the common facilities—in the offshore city.<sup>138</sup> Overall, this project has added another US\$ 1.5 billion to the total investment in Sri Lanka by China, totaling \$ 5.3 billion.

The submarine issue appears as the second unintentional consequence that put Sri Lanka in a disadvantageous position in IOR geopolitics. Surfacing submarines twice in the Colombo harbor appears a part of China’s grand strategy in the Indian Ocean, which combines its soft power strategy and military strategy together. The submarine issue has brought a common doubt about whether China tries to exercise its military hard power strategies in the Indian Ocean, having committed Sri Lanka through its soft power strategies. Considering China’s military strategy in the 1960s against India in the Indo–China war—using Sri Lanka’s territory for its war effort—together with the 2014

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<sup>135</sup>“Colombo Port City: What You Need to Know in a Nutshell and More,” Ada Derana, August 22, 2016, <http://www.adaderana.lk/news.php>.

<sup>136</sup> Gowen, “Can Sri Lanka’s New Government Break Free from China.”

<sup>137</sup> Carmel L. Corea, “Why the Port City Is Bad for the Country,” *Sunday Times Sri Lanka*, March 30, 2017.

<sup>138</sup> Gowen, “Can Sri Lanka’s New Government Break Free from China.”

submarine issue, one can argue that China's long-term strategy in the IOR, particularly against India, would be to use Sri Lanka—compelling Sri Lanka through soft power commitments—as a launching pad in the Indian Ocean. Moreover, India's interference in Sri Lanka's port city project in 2015 shows how far the submarine issue of 2014 has affected Sri Lanka in both its domestic economic affairs and in its geopolitics in the Indian Ocean.

#### **D. RECENT DEVELOPMENTS FROM 2015 TO 2017**

Section III shows that two main developments took place in Sri Lanka in the recent past—especially the post-2015 administration—that put Sri Lanka in between China and India in regional power politics. These developments emphasize that Sri Lanka's heavy indebtedness to China has left a very little room for Sri Lanka to maintain a balance in IOR activities. India having witnessed China's attempt to project its soft—economic—and hard—maritime—powers in the IOR has applied more pressure on the post-2015 administration to limit China's activities on the western coast of Sri Lanka—the port city project. This attempt could not be realized as expected by India, mainly because of the already established bilateral agreements between Sri Lanka and China, and the Chinese interest in capitalizing its presence in Sri Lanka for a longer period—99 years as per the terms of the long lease agreement. Sri Lanka having failed to capitalize on developed infrastructure—the Hambantota seaport and the airport—to make economic gains has leased the seaport to China for a longer period. Sri Lanka appears to be caught in China's debt trap; whereas from China's point of view, the latest developments in Sri Lanka exactly match with its String of Pearls strategy in the IOR.

The new Sri Lankan administration in 2015 temporarily halted the port city project, but resumed it in 2016 under a new name—“Colombo International Finance City” instead of “Colombo Port City.” When the new administration took over the country in 2015, the port city project was temporarily halted on the basis of two main reasons—one overt and the other covert. The overt reason was that there was reasonable doubt a proper

environmental suitability study had not been done prior to commencing the project.<sup>139</sup> The covert reason was the pressure applied by the Indian government when India had expressed its concerns over the Chinese submarine issue, and Sri Lanka temporarily suspended the port city project just a week prior to the Indian prime minister’s visit to Sri Lanka that took place after 28 years.<sup>140</sup> In response, the Chinese government indicated that the “project should be seen in continuity as the Chinese government had reached agreement with the last government to develop this project.”<sup>141</sup> Having investigated the environmental issues, however, the Ministry of Megapolis and Western Development signed a revised agreement with CHEC in August 2016, and resumed the project under a new name of “Colombo International Financial City.”<sup>142</sup> Further, the size of the reclaimed land has been increased under the renewed agreement with amendments to allocating areas in the offshore land, summarized in Table 5. Table 5 shows that the 2016 agreement could do little other than increase the total reclaimed land area, increasing land owned by the government, but no overall changes to the project.

Table 5. Comparison of Two Agreements of Port City Project, 2014 vs. 2016.<sup>143</sup>

Land Distribution	Position in 2014		In 2016	
	Negotiated Land (ha)	%	Amendments Land (ha)	%
Land allocated to CHEC on 99 year lease	108	46	110	41
Land to Sri Lankan government	62	27	63	23
Public areas	63	27	96	36
Total reclaimed area	233	100	269	100

<sup>139</sup> Gowen, “Can Sri Lanka’s New Government Break Free from China”; “Sri Lanka Government Holds up Beijing Funded \$ 1.5 billion Colombo Port City Project,” *Economic Times*, March 6, 2015, <http://www.economictimes.indiantimes.com>.

<sup>140</sup> Smith, “China’s Investments in Sri Lanka: Why Beijing Bonds Come at a Price.”

<sup>141</sup> “Sri Lanka Government Holds up Beijing Funded \$ 1.5 billion Colombo Port City Project.”

<sup>142</sup> Gowen, “Can Sri Lanka’s New Government Break Free from China”; “Colombo Port City: What You Need to Know in a Nutshell and More,” Ada Derana, August 22, 2016.

<sup>143</sup> Source: Ibid.

The southern development plan has failed to bring economic gains to Sri Lanka as expected, and this situation has created an economic hardship for Sri Lanka in repaying its debts. Though the southern district—Hambantota—expected to develop as the second most important city of the country having constructed a deep seaport, an airport, an international conference hall, a cricket stadium, and a highway from Colombo to South, the country has not reached its economic expectations.<sup>144</sup> As a result, the Hambantota development plan “struggled to break the inertia and come to life till 2016,”<sup>145</sup> and the airport and the seaport did not attract the expected air and sea freight, causing not only a delay in developing an industrial zone in the area but also affecting the debt payments as per the agreed terms and conditions.<sup>146</sup>

With the port and the airport running at an economic loss, Sri Lanka initiated debt renegotiation with China, which led to a new agreement in leasing the Hambantota seaport on a long-term basis to China, which eased Sri Lanka’s total indebtedness to China by US\$ 1.2 billion. As reported by Tudor Wijenayake, during the 15th Asia Pacific Conference held at Hong Kong in November 2016, Sri Lanka declared that it will lease the Hambantota sea port along with a piece of land—1151 hectares in size—as a joint venture with China.<sup>147</sup> After the debt renegotiations, Sri Lanka and China established a renewed agreement to operate the Hambantota port as a joint venture on July 29, 2017, just five days before the writing of this thesis, and when a joint venture had been now established between CMPH and SLPA.<sup>148</sup> As per the agreed terms and conditions, CMPH will operate the Hambantota seaport for 99 years, while operating one of the terminals—the southern terminal—in the Colombo port as well.<sup>149</sup>

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<sup>144</sup> Shepard, “Sri Lanka and China’s Hambantota Debacle May Now Be Too Big to Fail.”

<sup>145</sup> Ibid.

<sup>146</sup> Ibid.

<sup>147</sup> Tudor Wijenayake, “Sale of Hambantota Port—A Fair Deal?,” Daily FT, November 16, 2016, <http://www.ft.lk/article/580215/sale-of-Hambantota-Port-%E2%80%93-A-fair-deal>.

<sup>148</sup> “Sri Lanka Signs Hambantota Seaport Agreement,” Ape Rata, July 29, 2017, <http://aperata.net>.

<sup>149</sup> Wijenayake, “Sale of Hambantota Port—A Fair Deal?.”



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### **III. CASE STUDIES: PAKISTAN, BANGLADESH, AND VIETNAM**

This chapter is divided into two sections examining China's behavior in two geopolitical settings: Pakistan and Bangladesh, for its String of Pearls strategy in the IOR, and Vietnam, for its hegemonic activities in the Southeast Asia and in the South China Sea. This chapter provides insight on which to draw important conclusions about how China has dealt with the three countries—Pakistan, Bangladesh and Vietnam—and, in turn, how these three countries have responded to China. This analysis can provide Sri Lanka a better picture of the large geopolitical setting. The first section of this chapter contains the two IOR case studies involving Pakistan and Bangladesh and is based on China's financial assistance in developing infrastructure, particularly seaport construction. China's success—the Pakistan case—and failure—the Bangladesh case are examined. Second section focuses on the third case study examining China's hegemonic behavior—the Vietnam case. The first two case studies examine how China has succeeded in competing infrastructure developments in Pakistan and Bangladesh, and the effects of this success on IOR geopolitics. The third case study examines China's behavior in regard to Vietnam, including its affairs in the South China Sea, and considers what effects China can have in a hegemonic situation and how far the Vietnam model is applicable to IOR affairs.

#### **A. SECTION I: PAKISTAN AND BANGLADESH CASE STUDIES**

China's investments in and financial aid for development projects in Pakistan and Bangladesh resemble those of Sri Lanka in terms of the time period when the projects started, the reasons for Pakistan and Bangladesh to obtain assistance from China, and the nature of infrastructure development that has taken place in all three countries.<sup>150</sup> Pakistan, Bangladesh, and Sri Lanka have all obtained financial assistance from China in the same period, starting from the 2005 up to 2014 and 2015.<sup>151</sup> As argued by Thilini Kahandawaarachchi, China has become a favored financial partner for Pakistan,

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<sup>150</sup> Thilini Kahandawaarachchi, "China's Investments in Pakistan, Sri Lanka & Bangladesh" (master's thesis, University of Washington, Seattle, WA, 2015), Abstract, 1–2.

<sup>151</sup> *Ibid.*, 1.

Bangladesh, and Sri Lanka as an alternative to international financial organizations.<sup>152</sup> Seaports and the associated infrastructure development become the next common feature of China's financial assistance in these countries.<sup>153</sup> As emphasized by Ambassador Teresita C. Schaffer, Sri Lanka and Bangladesh do not seem to be challenging any of the powers in the IOR by developing their home ports; whereas, in the case of Pakistan, the construction of Gwadar port in the Indian Ocean has become an arena for its "epic rivalry with India".<sup>154</sup> Further, the amount of finance invested by China in Pakistan, Bangladesh, and Sri Lanka represents large sums—approximately US\$ 17.8 billion in Pakistan, 3.8 billion in Bangladesh, and over 5 billion in Sri Lanka.<sup>155</sup> Thus, substantial investment is a feature common to the Pakistan and Bangladesh case studies as well as the Sri Lankan situation.

## **B. CHINA'S FINANCIAL AID AND INFRASTRUCTURE DEVELOPMENTS IN PAKISTAN**

The Pakistan case study shows another successful story of China's String of Pearls strategy in the IOR. China's six economic corridors appear as one of its strategies to counter the U.S. strategy against China—an isolation strategy. Further, this case study shows how China has engaged with an ally of the United States and a rival of India—Pakistan—in its String of Pearls strategy. At the same time, China has invested considerable finances in the IOR for the construction of seaports and related facilities in Pakistan, Bangladesh, and Sri Lanka. Using a common approach, China offers these countries a large number of agreements and MOUs that show the benefits for the lender, the investor, and the borrower: 51 MOUs with Pakistan and eight with Sri Lanka. Considering the geographical area and the demographic factors—such as tribal areas in Pakistan where extremists and terrorist groups are operating—the China Pakistan Economic Corridor (CPEC) is likely to entail additional challenges while developing the

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<sup>152</sup> Ibid., Abstract; Kelegama, *China-Sri Lanka Economic Relations*, 132.

<sup>153</sup> Ibid., 9.

<sup>154</sup> Sithara N. Fernando, "China's Relations with Sri Lanka and Maldives," *China Report* 46(3), 2010, 285–297, <http://www.kdu.ac.lk/.../Chinas%20Relations%20with%20Sri%20Lanka%20and%20the%20...>

<sup>155</sup> Kahandawaarachchi, "China's Investments in Pakistan, Sri Lanka & Bangladesh," 1–2.

infrastructure in the corridor as well as in conducting these economic activities. This case study highlights the geopolitical challenges that the China–Pakistan partnership poses to U.S. and India’s interests in IOR affairs. By comparison, Pakistan enjoys greater freedom in conducting maritime activities in the Gwadar port with China, which might even extend from economic to military ones, or a covert combination. In such an environment, it is likely that the United States will play a more active role in IOR affairs, either through direct engagement or indirect engagement through a third party such as India. Further, how Sri Lanka manages and prevents the reemergence of China’s naval elements in Sri Lanka’s territorial waters, too, could become a critical factor when compared to the envisaged China–Pakistan maritime activities for balancing power in the IOR.

Like Sri Lanka, Pakistan established diplomatic relations with China in the mid-20th century, and both countries have engaged in political and economic activities since then.<sup>156</sup> Pakistan has had diplomatic relations with China since 1951, and it became the first Muslim country to recognize the communist government of China—the PRC.<sup>157</sup> As shown by Taimur L. Chaudhri, the bilateral relationship between the two countries shares an animosity towards India, and this relationship has evolved into a close strategic cooperation since the 1960s.<sup>158</sup> Following are the key milestones highlighting economic ties between the two countries since the 1960s: 1) the signing of a trade agreement in 1961 guaranteeing Pakistan the most–favored–nation treatment on a bilateral basis; 2) the Pakistani market in China for jute, textiles, and cotton in the mid-1960s, 3) the construction of the Karakorum highway linking Islamabad and the western Chinese city of Kashgar in 1972; and 4) the signing of a bilateral investment treaty in 1989.<sup>159</sup> Further, bilateral trade between China and Pakistan in the late 20th century and early 21st century shows the healthy relations maintained by the two countries in recent history—US\$ 768

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<sup>156</sup> Taimur L. Chaudhri, “The China-Pakistan Economic Corridor” (master’s thesis, Ohio State University, Columbus, OH, 2017), 2, <https://kb.osu.edu/dspace/bitstream/handle/1811/80531/1/Thesis-TaimurLChaudhri.pdf>.

<sup>157</sup> Ibid.

<sup>158</sup> Ibid.

<sup>159</sup> Ibid.

million in 1994, 1.1 billion in 2000, and 4.2 billion in 2005.<sup>160</sup> Further, China has also provided military and technical assistance to Pakistan over the years as an outcome of the strategic partnership between the two countries.<sup>161</sup>

In turn, Pakistan has become a partner of the One Belt, One Road (OBOR) strategy of China. OBOR is a development strategy proposed by Chinese President Xi Jinping in 2013 to upgrade infrastructure in 65 countries across Eurasia, and it includes developing economic integration in its regional and political cooperation.<sup>162</sup> The CPEC is one of six economic corridors—the remaining five are the New Eurasian Land Bridge, the China–Mongolia–Russia Economic Corridor, the China–Central Asia–Western Asia Economic Corridor, the Indo–China Peninsula Economic Corridor, and the Bangladesh–China–India–Myanmar Economic Corridor. The geographical locations of the six economic corridors are shown in Figure 4.<sup>163</sup> CPEC connects with the Gwadar seaport, and as explained by Kahandawaarchchi, China considers Pakistan as geographically important because it connects the western Chinese region of Xinjiang to the oil-rich Middle East through Gwadar port, which cuts transportation costs and distance for shipping commodities overland through Pakistan.<sup>164</sup>

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<sup>160</sup> Ibid., 3.

<sup>161</sup> Kahandawaarchchi, “China’s investments in Pakistan, Sri Lanka & Bangladesh,” 20.

<sup>162</sup> Lily Ouyang, “One Belt, One Road and China’s Evolution in Foreign Policy, and Regional Leadership” (senior thesis, University of Virginia, Charlottesville, VA, 2017), 4.

<sup>163</sup> Ibid.

<sup>164</sup> Kahandawaarchchi, “China’s investments in Pakistan, Sri Lanka & Bangladesh,” 20.

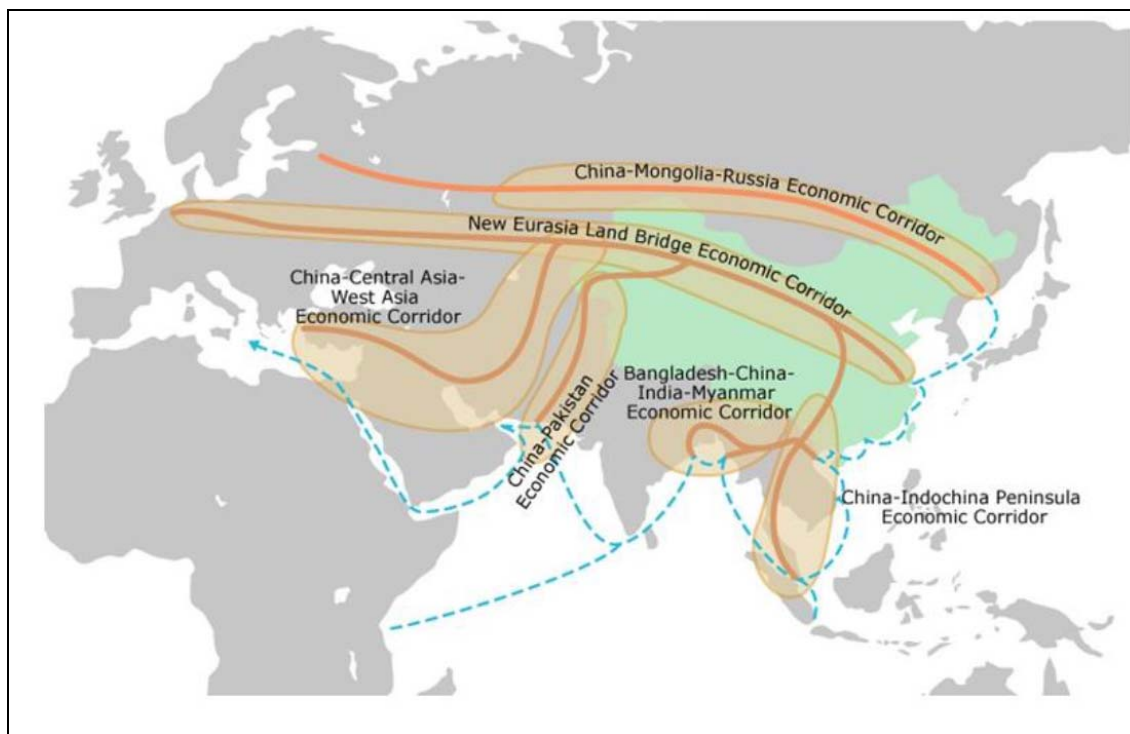


Figure 4. Six Economic Corridors, 2015.<sup>165</sup>

As shown by Riza Ahmad and Hong Mi', Pakistan considers CPEC of the OBOR as a great opportunity to develop its economy, and the CPEC project includes huge infrastructure development funded by China.<sup>166</sup> CPEC consists of the following economic projects: 1) connecting the Maritime Silk Route bordering the Indian Ocean, the Gulf states and East Africa, and all the way to the Mediterranean Sea, to land, a corridor through Gwadar port, 2) establishing the land route connecting Gwadar of Pakistan with Kashgar in western China, 3) the construction and upgrading of railways, 4) the construction of pipelines connecting Gwadar and Kashgar for oil transportation, and 5) undertaking electricity power generation projects.<sup>167</sup> The electric power generation projects will enhance Pakistan's national grid by 10,000 megawatts (MW) by

<sup>165</sup> Source: Ibid.

<sup>166</sup> Riza Ahmad and Hong Mi', *China-Pakistan Economic Corridor and Its Social Implication on Pakistan: How Will CPEC Boost Pakistan's Infrastructure and Overcome the Challenges* (Zhejiang: Zhejiang University publication, volume 8, issue 2, 2017), 1, <http://www.omicsonline.com/open-access/chinapakistan-economic-corridore-and-its-social-implication-on-pakistan-how-will-cpce-boost-pakistans-infrastructures-and-overcome-2151-6200-1000265.pdf>.

<sup>167</sup> Ibid.

2018, and the construction of an industrial park, too, has been included in the project.<sup>168</sup> The road network is going to be approximately 2,700 km in distance, which includes a 1,100 km-long motorway connecting Karachi and Lahore.<sup>169</sup> In addition, a railway track from Peshawar to Karachi, and the Karakoram highway also will be extended from Rawalpindi up to the Chinese border.<sup>170</sup> The idea of CPEC first came out in 2013, and a total of 51 agreements were signed between the two countries in 2015, when Chinese President Xi Jinping visited Pakistan.<sup>171</sup> As highlighted by Ahmad and Mi', Chinese banks and companies have agreed on over "\$45.6 billion investments in energy and infrastructure projects in CPEC,"<sup>172</sup> and the total investment agreed upon for the whole project as of 2015 was approximately \$62 billion.<sup>173</sup>

### C. OUTCOMES, EFFECTS, AND IMPACTS

A number of factors justify Pakistan choosing China as its main economic and development partner. Kahangawaarachchi, in responding to the question of why Pakistan has selected China for developing its infrastructure, points to three main reasons: first, China does not impose many conditions on its economic partnerships; second, the strong historical bilateral relationship; third, as a partner to balance the power in the region.<sup>174</sup> Highlighting the importance of historical bilateral relations in CPEC projects, as quoted by Kahangawaarchchi, the Chinese president characterized the strong bonds between the two countries as, "China and Pakistan as iron friends, and all weather partners of strategic cooperation,"<sup>175</sup> according to Pakistan's prime minister who visited China in

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<sup>168</sup> Mint; New Delhi, "China's CPEC Investment in Pakistan Reaches \$62 billion," April 12, 2017, <http://search.proquest.com/docview/1886862505/>.

<sup>169</sup> Ahmad and Mi', *China-Pakistan Economic Corridor and its Social Implication on Pakistan: How will CPEC boost Pakistan's Infrastructure and Overcome the Challenges*, 1.

<sup>170</sup> Ibid.

<sup>171</sup> Ibid.

<sup>172</sup> Ibid.

<sup>173</sup> Ibid.

<sup>174</sup> Kahandawaarachchi, "China's investments in Pakistan, Sri Lanka & Bangladesh," 42.

<sup>175</sup> Ibid.

2014.<sup>176</sup> On the other hand, China's partnership with Pakistan in its economic and infrastructure development activities appears to counterbalance India's grand strategy of becoming an influencer in IOR activities.<sup>177</sup>

Both China and Pakistan have a number of challenges in the successful completion of the CPEC project. Both countries have internal security issues, and Pakistan, in particular, is facing the effects of extremism and terrorism.<sup>178</sup> As noted by Riaz and Mi', the East Turkestan Islamic Movement (ETIM), the Lashkar-e-Jhanvi (LeJ), Daesh or ISIS, and the Baluchistan Liberation Front (BLF) could interrupt the smooth progress of the CPEC.<sup>179</sup> Baluchistan is the largest province in Pakistan according to geographical size, with a relatively small population, and a large part of the CPEC including the Gwadar port falls either within or in close proximity to Baluchistan. Meanwhile, the tribal structure in Baluchistan and the central government of Pakistan have unsolved political and economic issues that might disturb the CPEC project.<sup>180</sup> Some of the politicians in the Khyber Pukhtoonkhwa (KPK) have opposed the CPEC, which appears as a major challenge for the progress of the project.<sup>181</sup> When this situation is compared with Sri Lanka, China does not experience any kind of risk—in terms of the domestic security factor—as Sri Lanka has become a fully peaceful country since 2009.

The United States and India appear as the two countries most concerned over the CPEC. Highlighting Beijing–Washington concerns, Lily Ouyang explains that the OBOR—with CPEC as a part of OBOR—is China's counterbalancing strategy against the United States' "Asia Pivot"<sup>182</sup> strategy. China believes that the United States' "pivot" represents a containment policy, though it has been officially denied by the United

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<sup>176</sup> Ibid.

<sup>177</sup> Ibid., 51.

<sup>178</sup> Ahmad and Mi', *China-Pakistan Economic Corridor and its Social Implication on Pakistan: How will CPEC boost Pakistan's Infrastructure and Overcome the Challenges*, 5.

<sup>179</sup> Ibid.

<sup>180</sup> Ibid.

<sup>181</sup> Ibid.

<sup>182</sup> Ibid.



States.<sup>183</sup> China sees U.S. military presence in Afghanistan, Uzbekistan, Tajikistan, and military cooperation with Pakistan, as well as the strengthening of U.S. relationships with South Korea, Japan, India, and Vietnam as a part of a “China containment policy.”<sup>184</sup> Therefore, China has sought to reach other parts of the world through the OBOR, and the CPEC has become a significant effort in achieving OBOR goals.<sup>185</sup> On the other hand, Delhi has more concerns about Beijing–Islamabad relations as Pakistan is trying to counterbalance India in its IOR activities through the CPEC.<sup>186</sup> As emphasized by Kahandawaarachchi, the Pakistan military consider Gwadar beyond its economic capabilities, and expect that it will serve a considerable strategic purpose in maintaining a balance of power in the IOR.<sup>187</sup>

The Pakistan case study highlights both positive and negative impacts on Pakistan from alignment with China. These impacts result from China’s String of Pearls Strategy and one of the China’s Economic Corridors running through Pakistan. The economic benefits that Pakistan expects to gain from the Gwadar seaport and from the huge infrastructure development projects coming up with the CPEC are many. Similarly, its indirect benefits, such as employment opportunities, developments solving Baluchistan’s water and electricity issues, and strengthening the country’s road network, are considered as positive impacts of its bilateral relations with China. Further, Pakistan might have calculated the Chinese factor to balance its military imbalance with India, and a strong relationship with China could strengthen Pakistan in its geopolitical setting. However, the huge amount of finance involved in infrastructure development projects—running as high as \$ 17.8 billion—shows the danger of Pakistan becoming caught in a debt trap similar to Sri Lanka.

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<sup>183</sup> Ouyang, “One Belt, One Road and China’s Evolution in Foreign Policy, and Regional Leadership,” 24.

<sup>184</sup> Ibid.

<sup>185</sup> Ibid.

<sup>186</sup> Kahandawaarachchi, “China’s Investments in Pakistan, Sri Lanka & Bangladesh,” 51.

<sup>187</sup> Ibid.

#### **D. CHINA'S FINANCIAL AID AND INFRASTRUCTURE DEVELOPMENTS IN BANGLADESH**

The Bangladesh case study highlights two main aspects: an unsuccessful chapter of China's String of Pearls strategy in building a seaport along its maritime route, and the reasons that compelled Bangladesh to drop China from the two competitors—China and Japan—opted to let Japan construct a deep seaport for the country. Though China tried to establish an agreement with Bangladesh for nearly four years—since 2012—Bangladesh opted for a Japanese proposal in Matarbari. Considering the distance between Sonadia and Matarbari—just 25 km—it is apparent that Bangladesh's consideration was not the geographical location. Most likely, it would have been selecting a partner in the presence of U.S. and Indian factors. However, considering the friendly atmosphere facilitated by the Chinese when conducting trade with Bangladesh as compared with their Indian counterparts, and considering the number of Free Trade Agreements (FTA) that Bangladesh has established with China, it will remain as the main economic partner for Bangladesh. Further, as stated by the Chinese Ambassador in Bangladesh, China is very likely to negotiate with Bangladesh in establishing the Bangladesh–China–India–Myanmar Economic Corridor through Matarbari. It is very unlikely, however, that any possibilities would persist for China to exercise its PLAN activities in Matarbari considering how Bangladesh has handled IOR affairs in the recent past, inviting countries other than the IOR power players—namely, Japan—to become involved in bilateral economic affairs with Bangladesh.

Bangladesh established its diplomatic relations with China four years after Bangladesh was created as a separate country; thus, bilateral relations between Bangladesh and China started more recently as compared to Sri Lanka and Pakistan.<sup>188</sup> Bangladesh established a diplomatic relationship with China in 1975.<sup>189</sup> Though Bangladesh was created after the 1971 Indo–Pak war, China did not recognize Bangladesh as an independent state, and even vetoed its application to become a UN

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<sup>188</sup> Kahandawaarachchi, "China's investments in Pakistan, Sri Lanka & Bangladesh," 22.

<sup>189</sup> Ibid.

member.<sup>190</sup> Nevertheless, the year 2015 marked the 40th anniversary of diplomatic ties between the two countries, and during the past four decades, the bilateral relationship between China and Bangladesh has dramatically improved, particularly in the economic sector.<sup>191</sup> Bangladesh has become one of the main trading partners of China, and the two-way trade between the two countries exceeded \$12 billion in 2014.<sup>192</sup>

Bangladesh's geostrategic location in the Indian Ocean, particularly the Chittagong seaport, provides Bangladesh an advantageous position; thus, having identified such a value, China, India, and Japan have become competitors to establish economic collaborations with Bangladesh. As explained by Wade Shepard, Bangladesh is "politically and economically pliable"<sup>193</sup>—like a "ball of clay"<sup>194</sup>—and its geopolitical location has become a "preeminent global staging ground"<sup>195</sup> for the interests of the east and west.<sup>196</sup> Chittagong had been a major harbor in the "ancient Maritime Silk Road"<sup>197</sup>; where, historical evidence in the fourth century—in writing by the "Chinese traveler-monk Faxian and Ibn Battuta"<sup>198</sup>—shows the use of the Chittagong port, including the Karnaphuli River on the northeastern part of Bay of Bengal in the ancient Maritime Silk Road.<sup>199</sup>

From 1971 until the early-21st century, India was the main trading partner of Bangladesh, but, after 2004, China's trade with Bangladesh has increased many times

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<sup>190</sup> Ibid.

<sup>191</sup> M. Shahidul Islam, "Four Decades of Bangladesh-China Relations: What Next," *Daily Star*, October 2, 2015, <http://www.thedailystar.net/op-ed/politics/what-next-150247>.

<sup>192</sup> Ibid.

<sup>193</sup> Wade Shepard, "Bangladesh's Deep Sea Port Problem: China, Japan, and India Are All Competing to Build Dhaka's First Deep Sea Port," *Diplomat*, June 7, 2016, <http://thediplomat.com/2016/06/bangladeshs-deep-sea-port-problem/>.

<sup>194</sup> Ibid.

<sup>195</sup> Ibid.

<sup>196</sup> Ibid.

<sup>197</sup> Ibid.

<sup>198</sup> Ibid.

<sup>199</sup> Ibid.

overtaking Indo–Bangladesh bilateral trade.<sup>200</sup> As highlighted by Pravakar Sahoo, although Bangladesh has conducted bilateral trade with India since 1971, India has continued to maintain a trade balance over Bangladesh, and achieved a comparative advantage in favor of India.<sup>201</sup> India had insisted on non–tariff barriers and trade liberalism for Bangladesh, which resulted in a trade deficit for Bangladesh that continued as a common feature in bilateral trade between the two countries until approximately 2004.<sup>202</sup> By contrast, since that time, China’s trade relations with Bangladesh have boomed; and, economic and foreign policies of both countries have become conducive to promoting trade between them.<sup>203</sup> Although this growing trade between China and Bangladesh later developed into FTAs, Bangladesh was reluctant to establish similar FTAs with India.<sup>204</sup> As pointed out by Sahoo, China particularly had an interest in natural gas resources in Bangladesh, yet more importantly, looked at Chittagong seaport for trade in connecting the Bangladesh–China–India–Myanmar Economic Corridor.<sup>205</sup>

Bangladesh found two main competitors—China and Japan—to construct and operate a deep seaport for it, and India, too, became involved in the competition in demanding access for its cargo ships in Chittagong harbor. China and Japan became the main two competitors that proposed two locations for the construction of a deep seaport for Bangladesh—Sonalda by China and Matarbari by Japan. Initially in 2012, when Bangladesh sought China’s help to build a deep seaport at Sonadia, China responded with a project proposal, and agreed to provide loans to cover a major part of the project cost.<sup>206</sup> India, on the other hand, sought port facilities for Indian cargo ships in the

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<sup>200</sup> Pravakar Sahoo, *Economic Relations with Bangladesh: China’s Ascent and India’s Decline*, Institute of Economic Growth ( New Delhi: Delhi University, SAGE Publications, 2013), Abstract, <http://journals.sagepub.com/doi/pdf/10.1177/0262728013487632>.

<sup>201</sup> *Ibid.*, 124.

<sup>202</sup> *Ibid.*

<sup>203</sup> *Ibid.*, 123.

<sup>204</sup> *Ibid.*

<sup>205</sup> *Ibid.*

<sup>206</sup> Sudha Ramachandran, “China’s Sinking Plans in Bangladesh,” Jamestown Foundation, June 21, 2016, 2, <http://jamestown.org/program/chinas-sinking-portplans-in-bangladesh/>.

Chittagong; in response, Bangladesh accommodated the Indian demand in June 2015.<sup>207</sup> The third competitor, Japan, suggested a separate option—another new port at Matarbari—just 25 km south of Sonadia.<sup>208</sup> The geographical locations of Chittagong, Sonadia, and Matarbari considered for seaport projects by China and Japan are shown in Figure 5. Finally, Bangladesh consented to a contract with Japan to build a deep seaport in Matarbari after dismissing the Sonadia port option.<sup>209</sup> However, as highlighted by a diplomatic correspondence with the *Bangladesh Daily Star*, the Chinese Ambassador in Bangladesh had indicated in October 2016 that China was interested in becoming a partner wherever the seaport would be built, showing China’s interest in advancing the Bangladesh–China–India–Myanmar Economic Corridor.<sup>210</sup>

Although Bangladesh has become one of the main trading partners with China, and even disregarding the economic benefits from constructing a deep seaport at Sonadia, Bangladesh has avoided becoming a partner in the Chinese String of Pearls strategy. Compared to bilateral trade with India, Bangladesh enjoys greater economic benefits from trading with China, and the size of the economy engaged in bilateral trade with China in 2014 was equal to \$12 billion. Bangladesh’s decision to construct a deep seaport at Matarbari with the financial assistance of Japan—instead of the Sonadia port under Chinese financial aid—could be viewed mainly as a geopolitical decision probably at the expense of economic benefits for China from having a Sonadia port connected with the Bangladesh–China–India–Myanmar Economic Corridor. By doing so, Bangladesh has become more nonaligned compared both with Sri Lanka and Pakistan in IOR geopolitics, thus avoiding possible pressure from the other power players in the Indian Ocean.

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<sup>207</sup> Ibid.

<sup>208</sup> Ramachandran, “China’s Sinking Port Plans in Bangladesh,” *China Brief* 16 (June 21, 2016): 3, <http://jamestown.org/program/chinas-sinking-port-plans-in-bangladesh/>.

<sup>209</sup> “Deep Seaport Dilemma in Bangladesh,” *Hellenic Shipping News*, June 10, 2016, 3, <http://www.hellenicshippingnews.com/deep-seaport-dillema-in-bangladesh/>.

<sup>210</sup> Daily Star, “China Keen to be Partner in Building Deep Seaport,” *Daily Star*, October 4, 2016, <http://www.thedailystar.net/frontpage/china-keen-be-partner-building-deep-seaport-1293727>.

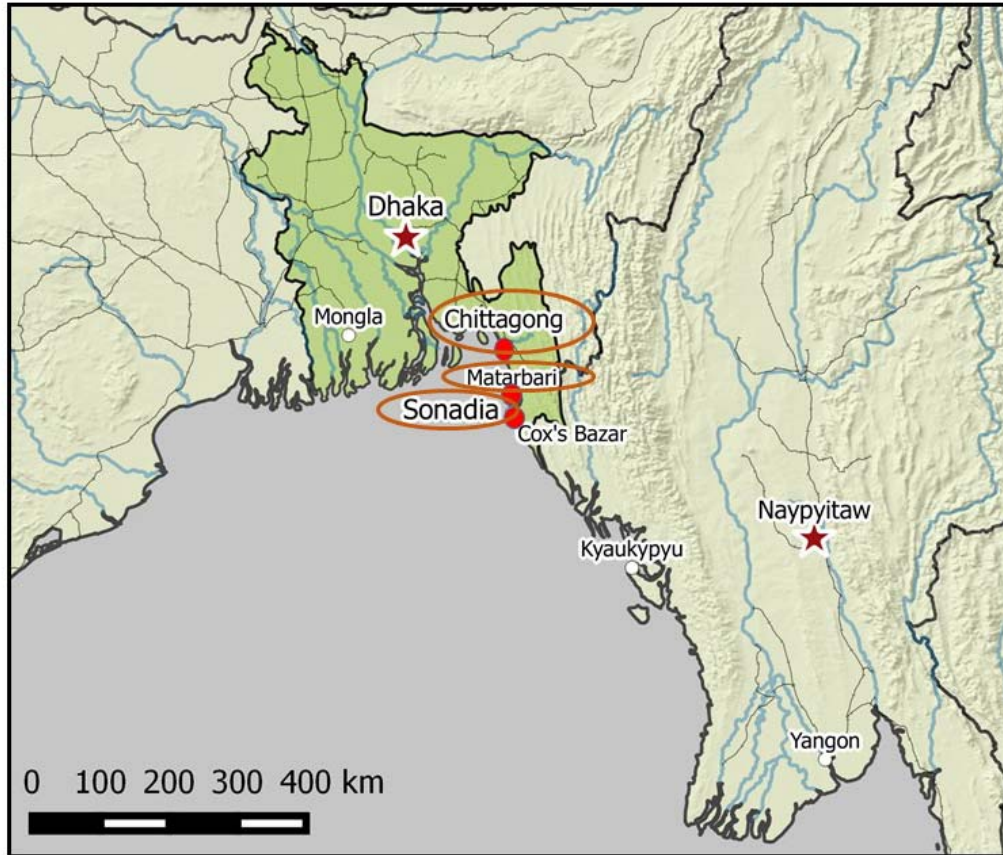


Figure 5. Port Projects in Bangladesh as of 2016.<sup>211</sup>

**E. SECTION II: CHINA’S BILATERAL RELATIONSHIP AND ITS HEGEMONIC ATTITUDES WITH VIETNAM**

Vietnam has a number of reasons to support the argument that it experiences China’s regional hegemonic effects, and Vietnam has met with China’s coercive use of both soft and hard power over a longer period of time than the other cases. Vietnam has experienced different forms of pressure by China. First, having once been an integral part of China and a tributary state, Vietnam has experienced direct forms of both hard and soft power. Immediately after becoming the Democratic Republic of Vietnam (DRV) in the 1950s, and in the 1970s in fighting the Vietnam War, the country received soft power in the form of military and training assistance. By contrast, the country directly experienced

<sup>211</sup> Source: Ibid., 2.

the effects of China's hard power during the 1979 China–Vietnam war, which was followed by China's application of soft power in isolating Vietnam in the post–1979 war. China's indirect ways of influencing Vietnam's governance structure and the use of conditioning and encouragement techniques served as soft power tools to influence Vietnam. By the end of the 20th century, Vietnam had become heavily dependent on China for its trade. At the same time, China has been investing in Vietnam to develop two of its economic corridors—an economic belt connecting China's Guangxi, Guangdong, Hainan, Hong Kong, and Macau with ten coastal provinces of Vietnam. Finally, China applies soft power coercion in the South China Sea, although it sometimes appears as hard power with the involvement of PLAN. Therefore, China's regional hegemony over Vietnam is reflected in a combination of a number of soft and hard power techniques that appear to be a part of geopolitics in the South East Asia. In this context, it is very unlikely that China would be able to exercise such power politics in the IOR.

The bilateral relationship between China and Vietnam has deep roots, and Vietnam had been an integral part of China in past.<sup>212</sup> From the historical perspective, the Han dynasty invaded Vietnam for the first time in 111 BC, and controlled Vietnam as a part of China for longer period.<sup>213</sup> Vietnam's history shows its interconnectedness to China developed over several centuries prior to beginning of the Common Era, and the Vietnamese first appeared as scattered communities living along the southern coast of the Asian continent, from the Yangtze estuary in the northern part of the Red River Delta.<sup>214</sup> Most of these people were later absorbed into the Chinese empires in the south, particularly during the Han dynasty, and these former Vietnamese constitute part of the majority of the Han race living in modern China.<sup>215</sup> Vietnam, even after becoming an

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<sup>212</sup> William J. Duiker, "China and Vietnam: The Roots of Conflict" (working paper, Institute of East Asian Studies, University of California, Berkeley, 1986), 1.

<sup>213</sup> Nhat Minh Be, "Vietnamese Politics: China-Vietnam Relations and TPP," University of Tokyo, Graduate School of Public Policy, MPP/IP, 2013, [http://www.pp.u-tokyo.ac.jp/grasp-old/courses/2013/documents/5140143\\_ba.pdf](http://www.pp.u-tokyo.ac.jp/grasp-old/courses/2013/documents/5140143_ba.pdf), 1.

<sup>214</sup> Ibid.

<sup>215</sup> Ibid., 2.

independent country in the tenth century, accepted and described itself as having a tributary relationship with China.<sup>216</sup>

The Sino–Vietnamese relationship continued in the colonial era, too, despite the two countries having experienced different colonial and imperial effects in the 17th and 18th centuries. In the 1880s, France established a protectorate over northern and central Vietnam, and brought the tributary relationship with China to an end; however, the cultural and intellectual bonds that had existed between the Chinese and Vietnamese societies could not be stopped.<sup>217</sup> Instead of parting the two nations, Western imperialism and colonization strengthened the mutual affinity between the two countries, which resulted from a shared humiliation that both countries had experienced at the hands of the West.<sup>218</sup> Although the Vietnamese could not call on assistance from the Qing dynasty in the mid-19th century when China was undergoing the effects of Opium War and unequal treaties, the intellectuals of both China and Vietnam continued to interact with each other.<sup>219</sup> As highlighted by William J. Duiker, the continuity of bilateral relationships—formal and informal—assisted both countries in incorporating Western sources of ideas and institutions into their Confucian societies.<sup>220</sup>

China recognized the DRV and provided assistance for Vietnam to fight against the French in Indochina. A consequence of the Pacific War—the Japanese surrender in August 1945—created a political vacuum in Vietnam, and the Vietminh created a provincial republican government—the August Revolution—with Ho Chi Minh as the president.<sup>221</sup> The new republic of Vietnam was formally named as the DRV, and China became the first country to recognize the DRV.<sup>222</sup> The DRV consolidated north and central Vietnam with the assistance of Chinese expeditionary forces, and towards the

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<sup>216</sup> Duiker, “China and Vietnam: the Roots of Conflict,” 1.

<sup>217</sup> *Ibid.*, 8.

<sup>218</sup> *Ibid.*

<sup>219</sup> Schoppa, *Revolution and its Past: Identities and Change in Modern Chinese History*, 55; Duiker, *China and Vietnam: The Roots of Conflict*, 8.

<sup>220</sup> *Ibid.*

<sup>221</sup> *Ibid.*, 16.

<sup>222</sup> *Ibid.*



mid-1950s China extended its support to the DRV by providing military equipment and training of personnel and by announcing the signing of a military aid agreement to fight against the French in Indochina.<sup>223</sup> Thus, bilateral relations in the 1950s appeared as China's support for Vietnam's struggle for independence, based on long-lasting relations between the two countries over the centuries.<sup>224</sup>

China and Vietnam had been wartime allies during the Vietnam War in the mid-1970s. As highlighted by Duiker, for generations China and Vietnam had been wartime allies, and during the Vietnam War, China had provided financial and material support—worth over \$10 billion—for Vietnam's reunification.<sup>225</sup> Such support from China to Vietnam eventually led to the withdrawal of the U.S. troops, and the unification of Vietnam under communist rule.<sup>226</sup> Vietnamese President Ho Chi Minh once declared the relationship between China and the Vietnamese revolution as a “thousand ties of gratitude, attachment, and love, a glorious friendship that will last forever.”<sup>227</sup>

The Sino–Vietnamese War, on the other hand, marks the breakdown of the historically friendly relationship between China and Vietnam, and China's response to Vietnam's aggression against Cambodia could be considered as an indication of China's regional hegemonic role in the 1970s. Towards the latter part of the 1970s, the relationship between the two countries turned frigid over the issue of Cambodia, and in response to the Vietnamese invasion of Cambodia in late 1978, China not only cut off its aid, but also invaded Vietnam in February 1979.<sup>228</sup> Chinese forces crossed the Vietnam border at several points, and China had placed two armies in the border areas, backed up by another eight divisions of local forces when its forces—comprising about 100,000 troops—crossed the border against the 60,000 to 80,000 Vietnamese closer to the Chinese

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<sup>223</sup> Ibid., 19.

<sup>224</sup> Ibid.

<sup>225</sup> Ibid., vii.

<sup>226</sup> Ibid.

<sup>227</sup> Ibid.

<sup>228</sup> Schoppa, *Revolution and Its Past: Identities and Change in Modern Chinese History*, 405.

frontier.<sup>229</sup> During the invasion Vietnam had nearly 600,000 combat troops, but its cream was operating in Cambodia.<sup>230</sup> Although Chinese forces suffered heavy casualties within a month of a shortened campaign, China's direct involvement in regional affairs could be in one way viewed as a start of a China's regional behavior—to “teach a lesson to Vietnam.”<sup>231</sup>

Clearly, the bilateral relationship between China and Vietnam ruptured in the Sino–Vietnam War in 1979. Yet, China continued to keep away from Vietnam in bilateral relations until its withdrawal from Indochina, which could be considered as use of soft power against Vietnam in the post–Sino–Vietnam war period. As highlighted by Minh Be, Vietnam's invasion of Cambodia brought the following negative impacts to Vietnam: 1) economic sanctions by the international community including China; 2) failure to be considered for membership by the UN, IMF, and World Bank, 3) elimination of or reduction in aid from some official development assistance (ODA) donors, like Japan and Sweden; and 4) opposition from China.<sup>232</sup> In such a situation, the Vietnamese economy heavily depended on the USSR's aid, which was not sustainable when the Soviet economy experienced a downturn in the early 1980s.<sup>233</sup> Such conditions brought Vietnam under a political and economic crisis, the Communist Party of Vietnam decided to reestablish its relationship with China.<sup>234</sup> Sino–Vietnamese relations once again became friendly in the wake of the Vietnamese unconditional retreat from Indochina in 1989.<sup>235</sup> Thus, China used its hard and soft power against Vietnam in regional affairs in the latter part of the 20th century, and could be considered as an example of China exercising regional hegemony directed at Vietnam in the 1980s.

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<sup>229</sup> Ibid., 85.

<sup>230</sup> Ibid.

<sup>231</sup> Ibid.

<sup>232</sup> Be, “Vietnamese Politics: China-Vietnam Relations and TPP.”

<sup>233</sup> Ibid.

<sup>234</sup> Ibid., 5.

<sup>235</sup> Jorn Dosch and Alexander L. Vuving, *The Impacts of China on Governance Structures in Vietnam* (German Development Institute, 2008), 9, [http://www.die-gdi.de/uploads/media/DP\\_14.2008.pdf](http://www.die-gdi.de/uploads/media/DP_14.2008.pdf).

Vietnam introduced six basic principles in 1990 as economic and political reforms, and recognized China's significance for Vietnam. The Vietnam Communist Party (VCP) defined six basic principles to drive the country through its grand strategy, and the six principles were as follows: 1) an advance to socialism is necessary, and reforms and renovations will not change the socialist objectives; 2) Marxism–Leninism is always the ideological foundation for the VCP; 3) the political reforms are aimed at strengthening the proletarian system; 4) maintaining the role of the leadership in the party is necessary; 5) democracy must be accompanied by centralism, and it should be led by the party; and 6) patriotism is integrated with the proletarian system and includes socialist internationalism.<sup>236</sup> As highlighted by Jorn Dosch and Alexander Vuving, the first four principles of the VCP are identical to the four principles introduced by Deng in China's reforms in 1979, and Vietnam in the 1990s considered China its giant neighbor most significant to its economic development.<sup>237</sup>

Vietnam's governance structure shows similarities to the PRC in six major ways where one country can influence another in its governance structure. As explained by Dosch and Vuving, the six major ways that one country can influence governance structure of another include: 1) unilateral imposition of governance structures by a foreign power; 2) imposition of a foreign model of political organization; 3) influence in the form of encouragement by a foreign actor; 4) convergence through regional integration; 5) imitation by a host country of an attractive model; and 6) inheritance of "the political model of its colonial master" by a given country.<sup>238</sup> Vietnam's governance structure seemed considerably influenced by the Chinese model both in the post-colonial and post-Cold War periods.<sup>239</sup> Furthermore, other than the six ways of influencing the government structure, China has used conditioning and encouragement techniques to transplant the Chinese model into Vietnam in the 1950s.<sup>240</sup>

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<sup>236</sup> Ibid.

<sup>237</sup> Ibid.

<sup>238</sup> Dosch and Vuving, *The Impacts of China on Governance Structures in Vietnam*, 1.

<sup>239</sup> Ibid.

<sup>240</sup> Ibid., 4.

China has become Vietnam's leading trading partner since the early-21<sup>st</sup> century, and China has been involved in improving rail and road infrastructure in Vietnam which have assisted China in developing two of its economic corridors. Since 2005, China has become Vietnam's leading trade partner, and "bilateral trade reached \$ 10.42 billion in 2006"—Vietnam had exported \$ 3.03 billion worth goods to China and imported \$ 7.39 billion worth of goods from China.<sup>241</sup> During the APEC Summit hosted by Vietnam in 2006, Chinese President Hu Jintao entered into 11 cooperation agreements, which included Chinese assistance to develop and improve its road and railway infrastructures in two economic corridors—the economic belt connecting China's Guangxi, Guangdong, Hainan, Hong Kong, and Macau with ten coastal provinces of Vietnam.<sup>242</sup>

Vietnam's economy has gradually become more dependent on China. When China and Vietnam reestablished diplomatic relations in 1991, Vietnam's trade with China had been estimated as \$ 32. 2 Million.<sup>243</sup> In the early 1990s, Vietnam considered Japan and ASEAN as the main trading partners, and in 1996 Vietnam's trade with Taiwan was higher than its trade with China.<sup>244</sup> Vietnam's trade with China in 2006 has been recorded as \$ 9.6 billion, and according to the WB records, bilateral trade between the two countries has risen to \$ 50 billion in 2013—10 percent of Vietnam's export and 28 percent of its import.<sup>245</sup> As highlighted by Kevin, Vietnam is largely depending on China for some of its major import industries which include footwear, garments, textile, and furniture.<sup>246</sup> The bilateral relationship developed close ties, and in the year 2009 alone, VCP had held 290 meetings with its Chinese counterparts, and these numbers indicates both Vietnam's desire to remain close with China, as well as how China's economic soft power attracted Vietnam towards it.<sup>247</sup>

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<sup>241</sup> Ibid., 10.

<sup>242</sup> Ibid.

<sup>243</sup> Kevin K. Tran, "How Will Vietnam's Economic Relationship and Diplomacy on China Affects Its Response to China's Increasing Threat to Its Sovereignty" (master's thesis, Naval Postgraduate School, 2015), 4.

<sup>244</sup> Ibid.

<sup>245</sup> Ibid., 5.

<sup>246</sup> Ibid., 6.

<sup>247</sup> Ibid.

China holds a strong interest over the control of the South China Sea, and Vietnam has become one of the victims of China's maritime influence in that area. The South China Sea occupies a significant geographical position, especially in terms of international shipping lines, passing through Malacca and approaching China, Japan, and other countries in the Southeast Asia.<sup>248</sup> The South China Sea accounts for nearly 10 percent of the annual global fisheries harvest, and so, has become an extremely important sea for the fishing industry. Further, this region is rich in oil and natural gas resources; thus, it has caught the attention of nations neighboring the South China Sea.<sup>249</sup> Therefore, China particularly, and Vietnam and the Philippines have made the most significant, forceful claims in the South China Sea.<sup>250</sup>

China's "nine-dashed line" in the South China Sea delineates the most powerful claim, one which China has submitted to the UN along with a marked up map illustrating the area. At the same time, Vietnam and Malaysia have made their submissions to the UN seeking extended maritime boundaries in the South China Sea. As shown in Figure 6 (with the nine-dashed line in red), China has claimed "historical waters" or "historical rights" to resources exceeding the ratifications of the UN Convention on the Law of the Sea (UNCLOS).<sup>251</sup> China's claims have been based on island features in the South China Sea: the Paracel and the Spratly Islands and their territorial waters, including an exclusive economic zone (EEZ) and continental shelves.<sup>252</sup> As highlighted in the International Crisis Group's Asia Report No. 233, China's claims within the nine-dashed line and to the Islands are based on surveying expeditions, fishing activities, and naval patrols conducted since the 15th century; China mapped them in 1914 and the Republic of China officially declared them in 1947 under the Kuomintang government.<sup>253</sup>

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<sup>248</sup> International Crisis Group, "Stringing up the South China Sea (1)," Asia Report No. 233, April 2012, 1.

<sup>249</sup> Ibid.

<sup>250</sup> Ibid.

<sup>251</sup> Ibid.

<sup>252</sup> Ibid.

<sup>253</sup> Ibid.

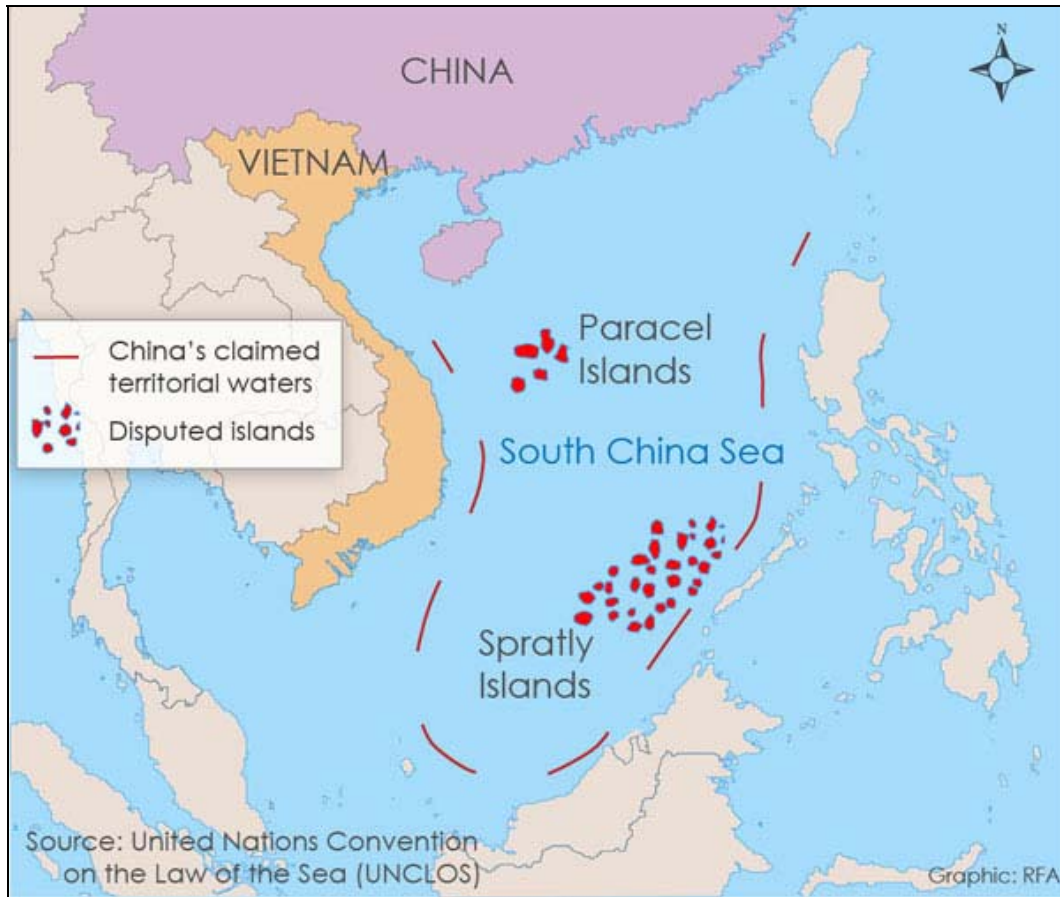


Figure 6. China's Claimed Territorial Waters under the Nine-Dashed Line as of 2012.<sup>254</sup>

The Vietnam case study shows not only the dangers of China's hegemonic behavior, but also how China has exploited historical narratives to its advantage. China's relationship with Vietnam is going well beyond the China-Indochina Peninsula Economic Corridor and bilateral economic activities—Vietnam as a part of China, Vietnam under China's tributary system, China's military support in the Vietnam War, and China invading Vietnam over the Cambodian issue. Therefore, the China-Vietnam relationship differs from China-Pakistan, China-Bangladesh, and China-Sri Lanka

<sup>254</sup> Source: UN Convention on Law of the Sea, 2012, <https://www.google.com/search?q=nine+dashed+line+china&source>.

relationships and from bilateral activities. However, China's hegemonic behavior against Vietnam mostly could be identified and related to the previously mentioned historical narratives. Therefore, China's responses to historical narratives show Sri Lanka the possible dangers of establishing long-term agreements with the larger power.

## IV. ANALYSIS

The analysis chapter tests the central hypothesis in qualifying the two probable answers for the research question. The two answers qualifying the hypothesis are: 1) the successful adoption of nonalignment will balance Sri Lanka's geostrategic interests with major power players in the IOR—the United States, China and India. 2) A failure to adopt nonalignment will make Sri Lanka subject to China's coercive soft and hard power, compelling it to align more actively with the United States and India to keep its geostrategic interests balanced. Therefore, this chapter focusses on following aspects: 1) bilateral relations and power coercion between Sri Lanka and China. 2) Two other power players in Indian Ocean—the United States and India—and their IOR interests. 3) Sri Lanka's foreign policy with major powers in Indian Ocean, and lastly 4) China's economic and geopolitical interests leading to power coercion and regional hegemony—an analysis of case studies.

Sri Lanka now has established new agreements with China to operate the Hambantota harbor as an outcome of debt renegotiations, and the agreements include establishing an industrial zone. Further, the port city project has resumed its reclamation work, and Hambantota airport has not been included in the new agreements. Against this background, Sri Lanka needs to maintain a balanced posture in its foreign relations, particularly with the major power players in the IOR, and any tight alignment—alignment with China in this case, and even an imbalanced realignment with India or the United States—might become problematic over the long run. Thus, nonalignment appears to be the most appropriate principle to guide Sri Lanka's foreign relations and protect its geostrategic interests.

This chapter initially analyzes to what extent Sri Lanka has become beholden to China and influenced by China's soft and hard power in the form of financial aid. Secondly, it analyzes the interests of the two other power players—the United States and India—in Indian Ocean affairs, and the importance of Sri Lanka to them. The third part of this analysis focuses on how Sri Lanka's foreign policy has swung from nonalignment to alignment, and then to realignment in the contemporary period, showing available



options for Sri Lanka to maintain a balanced relationship with the three power players in the Indian Ocean. The final part of this chapter analyzes the three case studies, and relates their lessons to the hypothesis for validation.

#### **A. BILATERAL RELATIONS AND POWER COERCION BETWEEN SRI LANKA AND CHINA**

This section tackles the following two questions as a foundation for analyzing Sri Lanka's relations with China in relating bilateral relations and alignments to pressure from hard and soft power: **Has Sri Lanka always aligned with China from the historical perspective to the contemporary period? Do the economic benefits enjoyed by Sri Lanka appear as a part of the disguised soft and hard power of China, disturbing the balance of geostrategic interests of Sri Lanka in the IOR?** As shown in Figure 7, Sri Lanka has a long history of aligning with China from the first to the 16th century, but the bilateral relations between Sri Lanka and China in the post-independent period show a clear break in that alignment. Sri Lanka's policy was nonaligned from 1950 to 1977, but after that period, Sri Lanka began aligning with the United States and the West. However, in the late post-independence period—from 2005 to 2015—Sri Lanka has realigned with China mainly because of the financial aid and infrastructure development agreements established between the two countries. Today, the United States appears as the alternative power player with Sri Lanka could realign—similar what it did in 1977 and 2015. At the same time, India also appears as an effective competitor for the realignment, particularly in light of India's influence in the temporary suspension of the port city project in 2015.

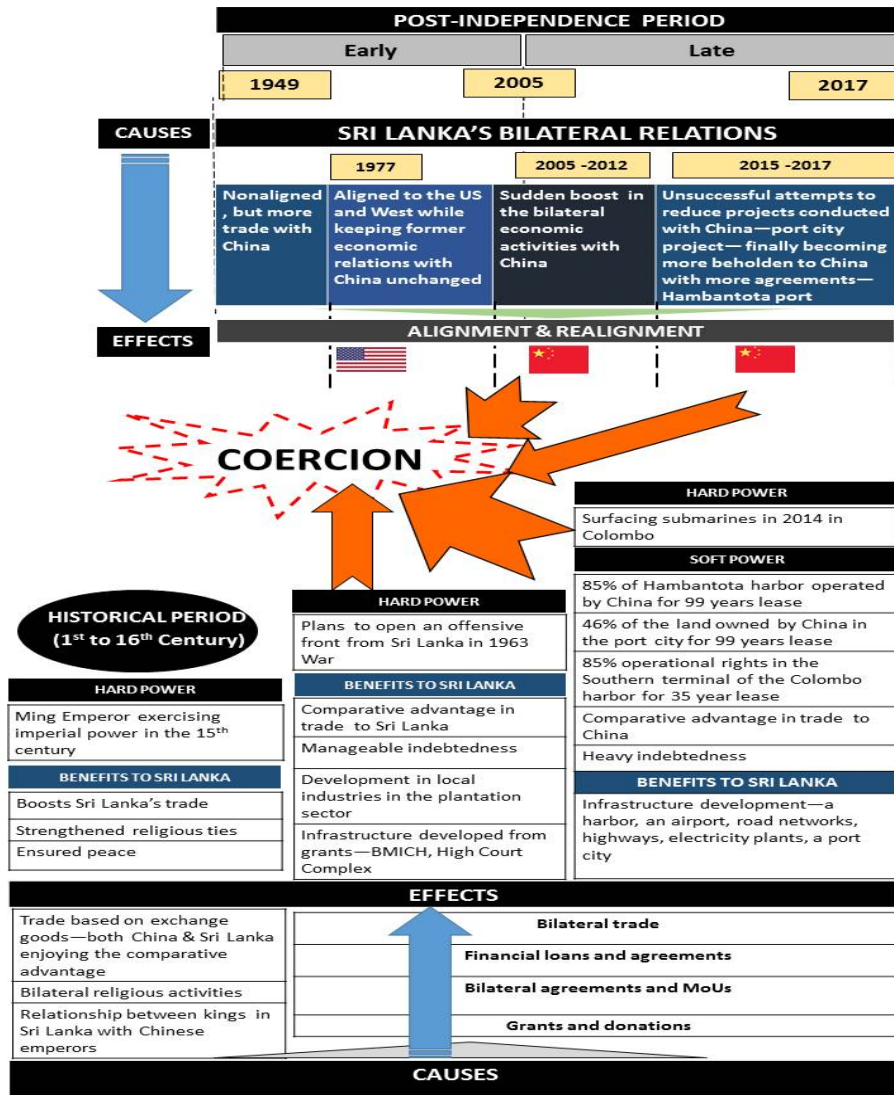


Figure 7. China's Hard and Soft Power Coercion Effects on Sri Lanka from the First Century to 2017.<sup>255</sup>

<sup>255</sup> Findings abstracted from the Chapter II show that China is in a great position to use its soft power against Sri Lanka, and it has attempted to exploit its hard power, too, when it wanted to use Sri Lanka as an additional front against India in the Indo-China War and sent its submarines to the Colombo harbor in 2014. Thus, this scenario suggests China uses possible soft and hard power coercion against Sri Lanka while maintaining economic relations between the two countries. Sri Lanka experienced negative effects from changing its bilateral relations leaning toward one country or bloc, and such bilateral relations have reflected on Sri Lanka as alignments or realignments in disturbing its balanced foreign policies. As a result of aligning with China, which resulted from economic activities—particularly financial aid and infrastructure development from China—Sri Lanka has become more beholden to China, showing the dangers of bowing to pressure from China's soft and hard power.

The economic activities highlighted in Figure 7—trade, financial loans and agreements, bilateral MOUs, and grants and donations—have delivered a number of economic benefits enjoyed by Sri Lanka; however, these benefits have corresponding soft and hard power effects that ultimately favor China. In comparing the number of benefits reaped with the amount of debt Sri Lanka has accumulated from late post-independence bilateral relations, Sri Lanka has stepped in a debt trap set by China’s soft power. Beholden to China, Sri Lanka cannot extricate easily itself from the trap while operating two ports and a port city on a long-lease basis. Furthermore, because these soft-power development project enabled China to display its underwater maritime capabilities in Sri Lanka’s territory, inevitably associated Sri Lanka with China’s hard power. Such projects and predicaments reflect a trend. A comparison of Chinese assistance to develop infrastructure in the early and late post-independence periods show that the infrastructure developed in the early post-independence had been more concentrated to develop the industrial sector—especially rubber—while in the late post-independence period, developments have focused on the service sector—ports, an airport, roads and highways. This reflects China’s use of soft power in individual countries to advance its regional strategies and initiatives, and to solidify its position as rival to the United States and India.

Debt negotiations and a renewal of agreements show that Sri Lanka remains aligned with China. The underperformance of the new harbor in attracting international shipping ventures affected repayments of debt to China, and it eventually led to debt renegotiations. As a result, Sri Lanka was forced to enter into a new agreement, allowing China to operate the Hambantota port for 99 years on a lease basis. Together with the resumption of the port city project, China now has become the most favored power player in the IOR, using Sri Lanka’s geostrategic position in the Indian Ocean.

## **B. TWO OTHER POWER PLAYERS IN THE INDIAN OCEAN AND THEIR INTERESTS IN THE INDIAN OCEAN AND SRI LANKA**

Whoever controls the Indian Ocean dominates Asia. This ocean is the key to the seven seas in the 21st Century, the destiny of the world will be decided in these waters.

—U.S. Rear Admiral Alfred Thayer Mahan<sup>256</sup>

### **1. The United States**

The Indian Ocean has become an important or critical theater for the United States for a number of reasons.<sup>257</sup> The following are the main reasons that make Indian Ocean important or critical for the United States: first, as highlighted by Peter Dombrowski and Andrew C. Winner, “there is a high probability that the Indian Ocean will develop into a fully-fledged region with self-identity and mature political, economic, and military institutions.”<sup>258</sup> Considering the political, economic, and military potential of China and India in IOR activities, the United States foresees the potential of this region, and given the percentage of the global population in these two countries—36.4 percent of the global population—the IOR becomes more and more important economically.<sup>259</sup> Second, the IOR is likely to develop similar to Northeastern Asia or Western Europe, and the United States and China are likely to expend their political capital, material resources, and diplomatic skills in ways that may or may not be welcomed by the Indian Ocean countries. Third, the United States would likely attempt to exercise its regional leadership through another power such as India, and such a relationship will be in terms of sea services—the U.S. Navy, the U.S. Marines, and the U.S. Coast Guard.<sup>260</sup> Fourth, the Indian Ocean is likely to emerge as a zone of conflict between the world’s superpower—the United States—and its emerging challenger—

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<sup>256</sup> Kahandawaarachchi, “China’s Investments in Pakistan, Sri Lanka & Bangladesh, 15.

<sup>257</sup> Peter Dombrowski and Andrew C. Winner, *The Indian Ocean and U.S. Grand Strategy*, (Washington, DC: Georgetown University Press, 2014), 3.

<sup>258</sup> *Ibid.*, 4.

<sup>259</sup> *Ibid.*

<sup>260</sup> *Ibid.*

China.<sup>261</sup> Lastly, it is important how an interaction of four nuclear powers—the United States, China, India, and Pakistan—in the Indian Ocean, would contribute to regional and global peace.<sup>262</sup>

As highlighted by Dombrowski and Winner, the United States would continue with its Neo–Nixon doctrine for IOR affairs.<sup>263</sup> Though the United States has vital military and political interests over the IOR, it does not require playing a leading role to guarantee security in the Indian Ocean, and it can achieve the same effects by facilitating multipolar regional arrangements through strong democratic states.<sup>264</sup> This approach features the Nixon Doctrine where it limited the unconditional security guarantee to smaller allies; instead, the United States provided aid and advice to its local partners to provide their own defense.<sup>265</sup> In this context, the United States would likely consider both India and Pakistan as democratic partners to maintain security and stability in the IOR. Furthermore, an opportunity to keep Sri Lanka in its favor would be a bonus for the United States, allowing that power to exploit its maritime strategies. It would do well to remember how Trincomalee, a natural harbor ideal for maritime operations, provided similar advantages to the British Navy in the WWII.

William C. Martel highlights how the U.S. strategy of containment applies to the IOR.<sup>266</sup> Theoretically, the strategy of containment helps the United States contain the risks to its interests and values by other states, groups, and movements. In the case of IOR, Martel highlights that U.S. strategic interests in the IOR are peace, security, and prosperity.<sup>267</sup> Although the United States’ grand strategy of containment emerged during

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<sup>261</sup> Ibid., 5.

<sup>262</sup> Ibid.

<sup>263</sup> Walter C. Landwig III, “Strengthening Partners to Keep the Peace: A Neo-Nixon Doctrine for the IOR,” in *The Indian Ocean and U.S. Grand Strategy*, ed. Peter Dombrowski and Andrew C. Winner (Washington, DC: Georgetown University Press), 29.

<sup>264</sup> Ibid.

<sup>265</sup> Ibid.

<sup>266</sup> William C. Martel, “Reformulating a Grand Strategy in the IOR: The Case of Containment,” in *The Indian Ocean and U.S. Grand Strategy*, ed. Peter Dombrowski and Andrew C. Winner (Washington, DC: Georgetown University Press), 45.

<sup>267</sup> Ibid.

the Cold War, the updated grand strategy to match with IOR affairs consists of three main elements—political, economic, and military.<sup>268</sup> As declared by President Barack Obama in January 2012, the United States would engage in a pivot in its strategy towards the IOR and Asia.<sup>269</sup> Specifically, Martel highlights the United States’ concerns in the IOR as security and economic issues and the rise of China as an emerging power in the region.<sup>270</sup>

Sri Lanka holds an important value in U.S. defense strategies in the IOR. With its natural harbor in Trincomalee, Sri Lanka holds an important position in the whole region, and by its mere geographical location at a strategic place in the Bay of Bengal, Trincomalee harbor has become one of Sri Lanka’s “most valuable assets.”<sup>271</sup> The natural design of the harbor can assure the safety of a fleet during the monsoon, from October to March. Further, Trincomalee always dominates the Bay of Bengal and the Eastern Sea; thus, any power that controls this harbor has a greater advantage from a naval and strategic perspective.<sup>272</sup> Currently, the bases used by the U.S. Air Force in South Asia are in Thailand and Singapore, but “the DOD [Department of Defense] study shows that New Delhi is 1600 nm [nautical miles] from Bangkok bases and Saudi Arabia is 2600 nm from Singapore.”<sup>273</sup> Thus, Sri Lanka becomes a potential candidate for the United States to consider for the establishment of another military base, possibly through defense treaties similar to those it has with Singapore.

## 2. India

India’s unique geographic location forms a foundation to dominate the Indian Ocean, and India’s first Prime Minister, Jawaharlal Nehru, had emphasized that India’s

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<sup>268</sup> Ibid., 46.

<sup>269</sup> Ibid.

<sup>270</sup> Ibid., 46–64.

<sup>271</sup> Defense Talk, Global Defence, Aerospace and Military Portal, “Strategic Importance of Sri Lanka for USA,” September 2005, <http://www.defencetalk.com/forums/geo-strategic-issues/strategic-importance-sri-lanka-usa-4126/>.

<sup>272</sup> Ibid.

<sup>273</sup> Ibid.

independence and survival depends on India's control over the Indian Ocean.<sup>274</sup> From India's point of view, the Indian Ocean has a great impact on India's economy and security. Thus, India's national strategy and maritime doctrine have been formulated on the basis of defending its maritime interests in the IOR.<sup>275</sup> India imports nearly 70 percent of its oil through IOR to its various ports; therefore, it seeks greater control, as well as greater stability of the maritime activities in the Indian Ocean.<sup>276</sup> India's strategy over the Indian Ocean has not been limited to maritime security only for its oil transportation; India also exercises its soft power by becoming a major investor in regional mining, oil, and gas projects conducted in the IOR.<sup>277</sup>

India considers the "Indian Ocean as India's Ocean," and both India and China have their concerns about IOR strategies against each other. India's unique geographical location in the Indian Ocean promotes its aspirations to dominate the IOR, or to transform it to India's Ocean.<sup>278</sup> Many Indian strategies and nationalists see the IOR as India's "rightful domain" and contend that "India needs to play a significant role in the region to develop the peace, prosperity, and cooperation."<sup>279</sup> Further, because of India's unique geographic positioning and aspirations to be the dominant power player in the region, "Indian politicians and strategists pay a greater attention to the linkages between the Indian Ocean and Indian security."<sup>280</sup> Therefore, India's soft power politics and naval capabilities highly concentrate on geopolitical developments in the IOR. Further, India has particular concerns about China's String of Pearls strategy in the IOR, and often accuses China of trying to surround India through its grand strategy.<sup>281</sup> Thus, India's grand strategy has always aimed to strengthen its naval power in the IOR.<sup>282</sup> On the other

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<sup>274</sup> Seneviratne, *Sri Lanka's Strategic Relevance in the South Asian Region*, 95.

<sup>275</sup> Garofano and Dew, *Deep Currents and Rising Currents: The Indian Ocean and International Security*, 131.

<sup>276</sup> Seneviratne, *Sri Lanka's Strategic Relevance in the South Asian Region*, 95.

<sup>277</sup> Ibid.

<sup>278</sup> Seneviratne, *Sri Lanka's Strategic Relevance in the South Asian Region*, 95.

<sup>279</sup> Ibid.

<sup>280</sup> Ibid.

<sup>282</sup> Ibid.

hand, China is also observing India's IOR strategy, and it has viewed the launching of Vikrant—the first Indian aircraft carrier—as India's ambition to dominate the Indian Ocean.<sup>283</sup> Since the late 20th century, India has established a wide-ranging strategic partnership with the United States. Since 1998, the United States and India have transformed their relationship at a breathtaking pace and it has developed into a wide strategic partnership.<sup>284</sup> As highlighted by Colin Geraghty, rebalancing its global engagements, and acknowledging the growing importance of the Asia-Pacific region, the United States has recalibrated and strengthened the bilateral relationship with India in the recent past.<sup>285</sup> Geraghty further emphasizes that three main factors invite America to strengthen its relationship with India: “its democratic nature, the demographic factor, and the economic weight of India.”<sup>286</sup>

India, having perceived that protecting the South Asian region from extra-regional powers is a part of its strategy, has substantial influence over a number of countries in South Asia. India has fought three wars against Pakistan, and the Kashmir issue has always been a hotspot between the two countries since 1947.<sup>287</sup> India was involved in the creation of Bangladesh in 1971, and India has influenced Bangladesh in its internal affairs.<sup>288</sup> India was also involved in Sri Lanka's internal conflict with the LTTE by showing two faces—training Tamil militants initially in the early 1980s, and conducting military operations against the LTTE under the Indo-Sri Lanka Peace Accord in the late 1980s.<sup>289</sup> Therefore, India plays a vital role with the countries in the IOR, showing its subregional hegemonic influence in IOR affairs.

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<sup>283</sup> Ibid.

<sup>284</sup> Colin Geraghty, “India in the Indian Ocean Region: Re-calibrating U.S. Expectations,” American Security Project, October 2012, <http://www.AmericanSecurityProject.org>.

<sup>285</sup> Ibid.

<sup>286</sup> Ibid.

<sup>287</sup> Devin T. Hagerty, *South Asia in World Politics* (Lanham, MD: Rowman & Littlefield Publishers, 2005), 16, 17, 26.

<sup>288</sup> Ibid., 27.

<sup>289</sup> Ibid., 107.



An analysis of facts and arguments emphasizes the importance of the IOR for the three major power players—the United States, China, and India—and their involvement in geopolitics in the IOR, as shown in Figure 8, has had many impacts on Sri Lanka. Though the United States seems to be adopting a cooperative strategy in IOR affairs, considering its strategic pre-eminence and the importance of IOR as a geographical space for the development of power and resources, Sri Lanka becomes an important destination to the United States, particularly with reference to Trincomalee natural harbor. China has already been involved with Sri Lanka with its String of Pearl strategy and has added Sri Lanka as a three-in-one pearl—Hambantota, Colombo harbor, and Colombo port city. Considering how India has behaved with most of the countries in the IOR—either as a stabilizing or destabilizing influence, or some combination of both—Sri Lanka needs a cordial relationship with India in IOR affairs. Therefore, Sri Lanka has an important role to play IOR geopolitics with regard to these three main power players, and it needs to adopt a careful and nonaligned approach with them.

Figure 8 shows the interests, varying from regional stability and cooperation to economic strategies, of the major power players in the IOR. The geostrategic value of Sri Lanka in the Indian Ocean becomes an important factor that can entangle the interests of the IOR power players with Sri Lanka. Thus, the interests of the IOR power players and their involvement with Sri Lanka must underpin Sri Lanka's foreign relations, swinging from alignment and realignment to nonalignment. Sri Lanka's alignment and realignment strategy with the power players makes a loop linking causes and effects—the interests of the United States, China, and India in the IOR and the impact of those interests.

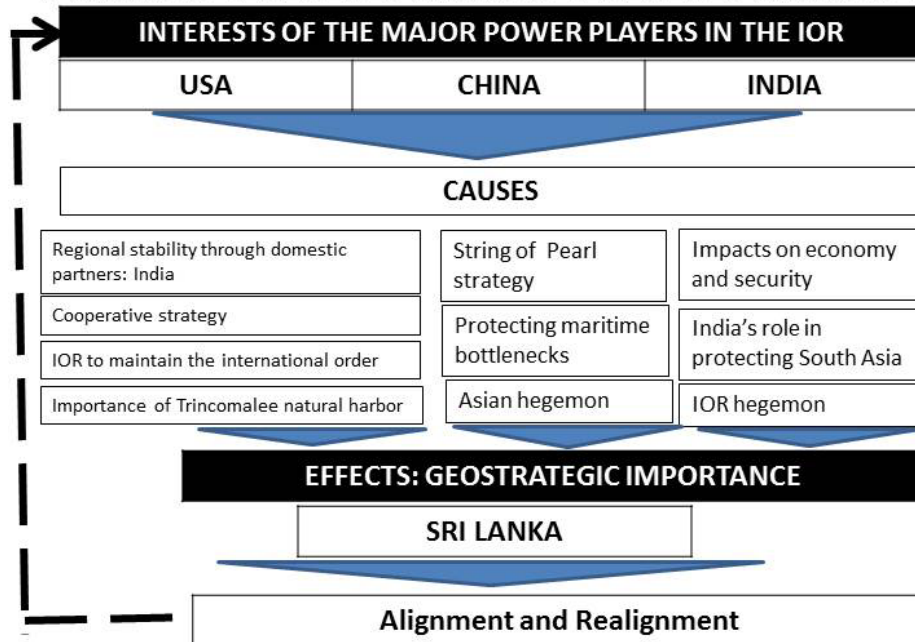


Figure 8. Interests of the Major Power Players in the IOR and their Effects on Sri Lanka as of 2017.

### C. SRI LANKA’S FOREIGN POLICY WITH THE MAJOR POWERS

Since independence, the two main parties—the UNP and the SLFP—either as a single party, or as a coalition, have governed the country. The foreign policy of Sri Lanka has had significant changes depending on the political party that came to power through the democratic process, which allows the people to select the government.<sup>290</sup> Sri Lanka’s foreign policy has aligned and realigned from the capitalist to the socialist bloc—with the United States, Soviet Union, China, and India. Table 6 summarizes the changes in government since 1948, and this section shows key features of Sri Lanka’s foreign policy under the following time periods: 1948 to 1956—UNP, 1960 to 1977—SLFP, 1977 to 1996—UNP, 1994 to 2002 and 2005 to 2015—SLFP, and from 2015 to date—combined UNP and SLFP.

<sup>290</sup> Source: S A K Madanayaka, *Unique Features of Foreign Policy of UNP Regimes and Bandaranayake Regimes* (Kelaniya: University of Kelaniya, 2016) 219, <http://repository.kln.ac.lk/bitstream/handle/123456789/12040/journal%202.219-227.pdf>.

Table 6. UNP and SLFP Governments since Independence, from 1949–2017.<sup>291</sup>

<b>Duration</b>	<b>Government</b>	<b>Foreign Policy</b>
1948–1956	UNP	Pro-British
1956–1959	SLFP	Nonalignment
1960	UNP	Nonalignment
1960–1965	SLFP	Nonalignment, but strong relations with China
1965–1970	UNP	Nonalignment
1971–1977	SLFP-led coalition government	Nonalignment, but strong relations with China
1977–1994	UNP	Pro-United States and West
1994–2001	SLFP	Nonalignment
2002–2004	UNP	Nonalignment
2005–2015	SLFP led coalition government	Pro-China
2015 to date	Combined UNP-SLFP	Pro-United States and India, but strong relations with China

Figure 9 depicts the correlation between Sri Lanka’s foreign policy changes and the corresponding reactions by the three power players. Sri Lanka, being a small nation, has experienced soft power coercion from powerful counties in the past, even though it maintained a nonaligned foreign policy with powerful nations. Although Sri Lanka became a nonaligned country, particularly in the Cold War period, the United States wanted Sri Lanka to become aligned with the capitalist bloc. When Sri Lanka’s foreign policy more closely aligned with the United States in the late 1970s, India considered it as indifferent; Sri Lanka ignored India and the U.S.–Sri Lanka relations threatened India. More recently, Sri Lanka experienced negative effects in changing its foreign policy from

<sup>291</sup> Adapted from Madanayaka, *Unique Features of Foreign Policy of UNP Regimes and Bandaranayake Regimes*, 219, 223; A. Sivarajan, *Sri Lanka’s Foreign Policy since 1994* (Peradeniya: University of Peradeniya, 2003), 5, 12–19.

alignment to realignment—becoming more aligned with China. This realignment occurred when the United States and India became involved in Sri Lanka’s domestic politics in the 2015 elections, and later India pressured Sri Lanka to change its economic relations with China over issues involved in constructing the Colombo port city project.

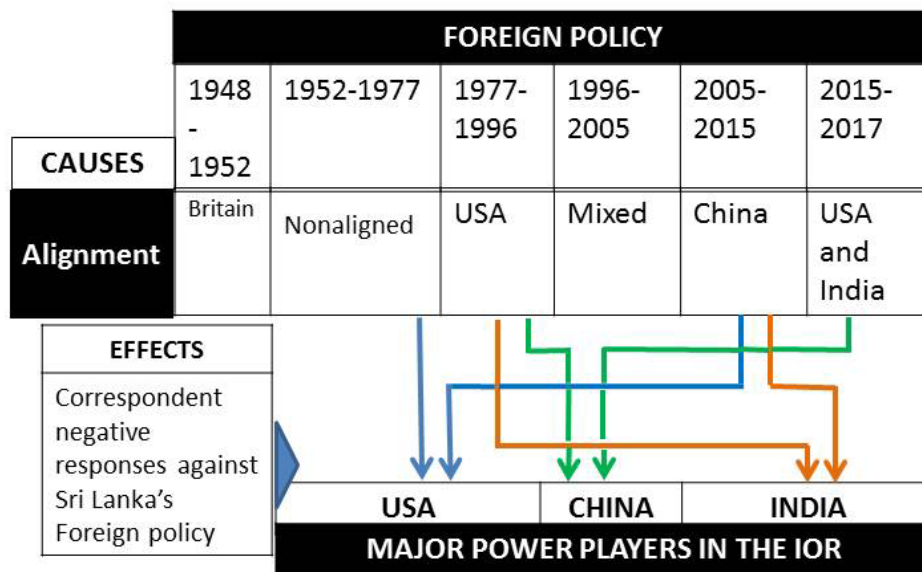


Figure 9. Correlation between Sri Lanka’s Foreign Policy Changes and the Reactions by the United States, China, and India from 1948 to 2017.

Analysis of the foreign policy of Sri Lanka since its independence shows that with the change in political parties coming to power through the democratic process, policy has changed. The foreign policy adopted in the periods of 1960–65 and 1971–77 struck a balance with China and India, even allowing for flexible relations with the United States. Mr. and Mrs. Bandaranayke attempted to keep Sri Lanka as a nonaligned country even when the Cold War was in full swing. Despite being a smaller country, Sri Lanka was strengthened by its nonaligned foreign policy, going so far as to invite China and India to a conference table in the immediately after the Indo–China war . Further, the healthy foreign policies adopted by Sri Lanka in the 1960–65 and 1970–77 periods assisted the country to resolve vital issues with India—a maritime demarcation between the two countries and the Tamil labor issue.

The 1977–1994 UNP government realigned its foreign policy as pro–United States and pro–Western, and India saw this shift as a threat to India and IOR affairs.<sup>292</sup> As highlighted by Neil De Votta, India viewed the changes in Sri Lanka’s foreign policy of 1977 as a deliberate undermining of India’s regional security concerns. In particular, India considered the following events as a threat to its security: 1) discussions held by Sri Lanka to lease an oil tank farm—100 oil tanks—located at strategically important Trincomalee; 2) an agreement reached with the United States to host an powerful Voice of America radio station in Sri Lanka; and 3) a request for military assistance from Britain and Israel intelligence agencies to fight against LTTE.<sup>293</sup> India responded to Sri Lanka’s foreign policy alignment with the United States and the West by training, arming, and strengthening Tamil rebels through its leading intelligence agency, the Research and Analysis Wing (RAW), which negatively affected Sri Lanka, and eventually led to a 30-year-long internal conflict.<sup>294</sup>

Though the combined UNP–SLFP government of 2015 initially attempted to make its foreign policy more aligned with the United States and India while leaving China behind, the heavy indebtedness and investments Sri Lanka had with China reshaped its foreign policy to a balanced one with the major powers. With the change of the government in 2015, the United States, Japan, and India also sought to rebalance the strategic shape of Sri Lanka through political and economic engagements.<sup>295</sup> Dharmawardana reports the allegations against the United States and India for supporting the Sirisena–Wickramasinghe government’s rise to power, with an understanding that each would promote the other’s core interests. At the same time, the new government came under pressure from India to suspend the port city project in the latter part of 2015.<sup>296</sup> As shown by Gowen and Seneviratne, Sri Lanka could not suspend the port city

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<sup>292</sup> Neil De Votta, *Linguistic Nationalism, Institutional Decay, and Ethnic Conflict in Sri Lanka* (Stanford University Press, 2004), 149, 156–157.

<sup>293</sup> *Ibid.*, 156.

<sup>294</sup> *Ibid.*

<sup>295</sup> Dharmawardana, *Sri Lanka’s Foreign Policy under Sirisena-Wickramasinghe Government*, 4.

<sup>296</sup> *Ibid.*

project for a longer period because China claimed that it had entered into an agreement to construct a port city on reclaimed land.<sup>297</sup> In late 2016, the current government started discussions with China to operate the new port in Hambantota, as well, under a long-term leasing joint venture.<sup>298</sup>

#### **D. BEHAVIOR OF SRI LANKA’S FOREIGN POLICY IN THE INTERESTS OF THE MAJOR POWER PLAYERS**

This section establishes another two questions to examine the findings with the hypotheses: **Has Sri Lanka’s foreign policy been affected by the geopolitical interests of the major power players in the IOR? Could Sri Lanka become a nonaligned country through realignment?** Sri Lanka needs to identify the geostrategic interests of the three major power players in the IOR, and Sri Lanka can play an important role in IOR geopolitics in order to develop its economic prosperity and maintain stability. China, as identified from its interests in IOR affairs, is mainly concentrating on economic activities—both in terms of the String of Pearls strategy and the supply of oil—while maintaining its ongoing interest in its military affairs—particularly India’s maritime power projection in the IOR. India, having historically proved that it is capable of interfering in the internal affairs of others in the IOR, values its security over economic strategies in the IOR. The United States seems more focused on stability in the IOR over its other interests, such as the IOR as the geostrategic space for the development of power and resources.

Alignment and realignment correlate with the interests of the power players in the IOR; on the other hand, alignment caused negative effects on Sri Lanka in the past. As elaborated in Figure 8, different IOR interests of the three major power players correlate with the geostrategic importance of Sri Lanka. The possibility of Sri Lanka becoming

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<sup>297</sup> Gowen, “Can Sri Lanka’s New Government Break Free from China”: Seneviratne, “Sri Lanka Government Holds up Beijing Funded \$ 1.5 billion Colombo Port City Project.”

<sup>298</sup> Shepard, “Sri Lanka’s Hambantota Port and the World’s Emptiest Airport go to the Chinese.”

aligned or realigned with the three of the power players depends on how Sri Lanka's economic and foreign policies accommodate the interests of those players. As shown by past experience, once Sri Lanka becomes aligned or realigned with one power player, the it is likely to alienate one of the other power players, and may experience some negative reactions. Three such examples of negative responses to Sri Lanka's alignments and realignment are as follows: 1) in 1977 when Sri Lanka aligned with the United States, India reacted by training LTTE cadres; 2) when Sri Lanka realigned with China in the 2005–2012 period, the United States raised legal claims against Sri Lanka for human rights violations in the UN Security Council, and 3) when Sri Lanka realigned with the United States and India in 2015, China told Sri Lanka that it would continue the port city project.

Previously, Sri Lanka has gained an international reputation and economic benefits from its nonaligned foreign policies; therefore, Sri Lanka could benefit from being a nonaligned country yet again in the comparative geopolitics of the IOR. Historically, the nonaligned foreign policy has not only provided Sri Lanka an advantageous position in its international relations, but also assisted Sri Lanka in achieving its economic and geopolitical aims. Thus, nonalignment appears as to be the best suited approach. Among the key achievements Sri Lanka has accomplished through a policy of nonalignment are remaining unaffected by external powers, and playing an independent role as a mediator in foreign affairs (as in the Colombo Conference that brought India and China to the conference table in the aftermath of the 1963 Sino-Indian war). Therefore, Sri Lanka must realign its policies to become a nonaligned country in IOR affairs. In this situation, if Sri Lanka fails to become nonaligned, possibly because of its economic activities linked to China now, Sri Lanka might further strengthen its relationship with the United States, considering the U.S. interests in the IOR—cooperative strategy and regional stability.

**E. CHINA’S ECONOMIC AND GEOPOLITICAL INTERESTS LEADING TO POWER COERCION AND REGIONAL HEGEMONY: AN ANALYSIS OF THE CASE STUDIES**

It is useful to study China’s behavior—a blend of economic soft and military hard power—with other countries, both within and outside the IOR, to relate that behavior with IOR power politics in general and Sri Lanka’s geopolitical interests with IOR power players in particular. Thus, this section focuses on the case studies to extract lessons about China’s economic and geopolitical interests, its use of power (both soft and hard), and its pursuit of regional hegemony: The Pakistan and Bangladesh case studies show two opposite outcomes from establishing seaports that support China’s maritime silk route strategy. Bangladesh has struck a balance in its trade and infrastructure development by having adopted a multiple partner approach. Pakistan having had a long lasting bilateral relationship with China—“iron friends” as expressed by China—has allowed China to develop its CPEC, which consists of a port construction, inland road and highway construction, and a number of other economic projects worth more than US\$ 62 billion. Gwadar port, which is the gateway for the CPEC to the Indian Ocean, shows both soft power—economic—as well as hard power—military—potential with the concurrence of both countries. In comparison to Sri Lanka’s situation in 2014 when Chinese submarines surfaced in Colombo and India responded to it—pressuring Sri Lanka either to give up the port city project or include India in the project—Pakistan is unlikely to experience comparable interference by another IOR power. Thus, the Gwadar port brings more advantages to China than the Sri Lankan ports. The Bangladesh case study differs from that of Pakistan as China has not succeeded in developing a deep seaport at Sonadia. The construction of Matarbari’s deep seaport with Japanese financial aid, instead of Sonadia under Chinese financial aid, teaches two lessons beyond China’s failure to expanding its soft and hard power in the IOR. First, we can see how Bangladesh has effectively used its foreign policy to create a balance in IOR geopolitics, and second, it illustrates how influential Indian is in IOR affairs—particularly in regard to its desire to use Bangladesh’s seaports for trade.



The Vietnam case study, even though it falls outside of IOR geopolitics, offers a number of lessons about China's behavior in Southeast Asian and South China Sea geopolitics. China's bilateral relations with Vietnam tell a different story than China's relations with the IOR countries, particularly with its historical background. Together with the South China Sea affairs, the Vietnam case study brings a number of lessons about China's hegemonic behavior. As shown in Figure 10, China achieved its regional hegemony over Vietnam through its soft power; Vietnam became heavily dependent on China for its trade since the end of the 20th century. Vietnam also experienced of Chinese military potential (hard power) in the China-Vietnam War. Chinese hegemony in the South China Sea, particularly in considering its argument for an EEZ centering on the Parcel and Spratly Islands—based on its perceived historical rights to the islands—allows one to draw possible similarities in the IOR, particularly for the port city of Sri Lanka—funded, developed, and to be used under a 99-year-long lease by China.

Foreign policy can play an effective intermediate, as well as a decisive, role in positioning a country to achieve balance in its foreign affairs. Figure 10 shows the exertion of soft and hard power in the three case studies, and a possible hegemonic status (in the case of Vietnam); in which Pakistan, Bangladesh and Vietnam, without an effective use of foreign policy, are very unlikely to strike a balance of power in their relations with China. The Bangladesh case study shows how a change in alignment through foreign policy that adopted a multi-player approach corrected an imbalance and reduced the undue power China held in their bilateral relations. Therefore, the three case studies show Sri Lanka the danger of bilateral relations exclusively favoring China versus a balanced approach to IOR geopolitics through effective foreign policy. Such an approach entails a strategy of alignment to realignment, and then to nonalignment—to protect Sri Lanka's geostrategic interests similar to the Bangladesh case study.

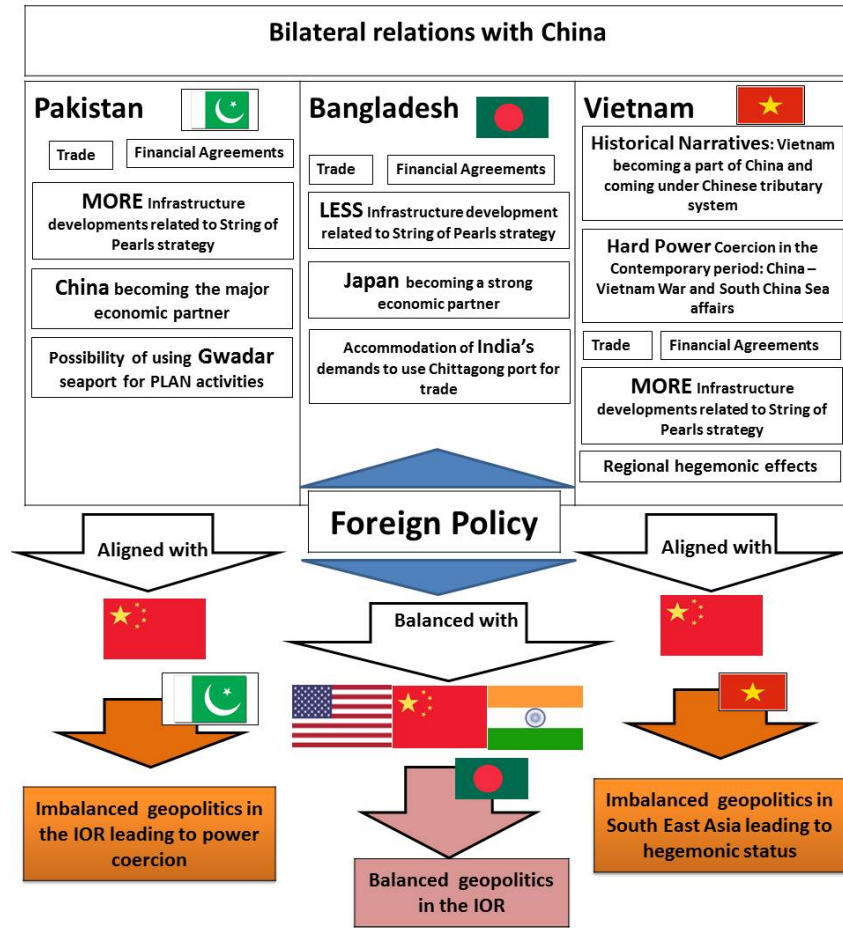


Figure 10. Effects of China’s Financial Aid and Infrastructure Developments on Pakistan, Bangladesh, and Vietnam, and Pakistan and Vietnam becoming Aligned with China, Effects as of 2015.<sup>299</sup>

<sup>299</sup> Chapter III—Case Studies of Pakistan, Bangladesh and Vietnam—shows a relationship between the volumes of bilateral economic activities and the alignment possibilities. Either the regional hegemonic effects—China’s regional hegemony over Vietnam—or the use of new infrastructures developed under China’s financial aid as soft and hard power coercion have influenced Vietnam and Pakistan into becoming more aligned to China. Examples of the latter are the use of Gwadar seaport and CPEC in Pakistan. By contrast, Bangladesh has avoided such alignment to China by inviting Japan to construct a deep seaport, Matarbari, and has become more balanced with the IOR power players.

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## V. RECOMMENDATIONS AND CONCLUSION

The following statement by U.S. Secretary of Treasury William Simon, after a meeting held with Sri Lankan Prime Minister Sirimao Bandaranayke in April 1975, indicates the effectiveness of nonalignment as a key principle in Sri Lanka's foreign policy when dealing with the global superpowers and regional powers alike in the 1970s:

On April 21, I had a candid, highly satisfactory meeting with Prime Minister Bandaranayke of Sri Lanka. We covered a broad range of international, and domestic, economic and political issues.... She said Sri Lanka was not a bigger nation and wanted to make its own way. Substantial assistance, however, was essential through the present very difficult economic period.... On international political issues, the Prime Minister said Sri Lanka will continue a carefully balanced approach to large nations, specifically mentioning the Soviet Union, PRC, India, and Pakistan.... I congratulated her on Sri Lanka's hosting of the 1976 Non-Aligned Conference.<sup>300</sup>

As Simon understood, it was a fact that not only had the policy of nonalignment served Sri Lanka to maintain a balanced relationship with powerful countries in the 1970s, but it also enabled Sri Lanka to become an active partner among the nonaligned members, and to maintain the tempo of the NAM—with Sri Lanka hosting the NAM conference in 1976.

In comparing Sri Lanka's economic climate of the late 20th century, particularly in the 1970s, with that of the early 21st century—from 2008 to 2015—I note that Sri Lanka needed external financial and economic aid in both periods. As the U.S. Department of State documented at the time, Sri Lanka's economic status in 1973–1976 necessitated large-scale external financial assistance.<sup>301</sup> Sri Lanka's pragmatic, nonaligned foreign policy had helped Colombo to seek support from both the East and

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<sup>300</sup> Office of the Historian, "Foreign Relations of the United States," 1969–1976, Volume E-8; Document on South Asia, 1973–1976, 85.

<sup>301</sup> *Ibid.*, 95.

the West, showing India that Sri Lanka had other windows on the world.<sup>302</sup> Prime Minister Bandaranayke recognized the importance of having good relations with the United States, despite the fact that leftists in her own government opposed such relations. Thus, in the 1970s, Sri Lanka struck a balance between East and West without antagonizing India, showing how far nonalignment had grown as the most suitable principle for Sri Lanka's foreign policy, particularly in dealing with powerful countries.

By contrast, from 2008 to 2015 when the debt trap was set, Sri Lanka failed to maintain the policy of nonalignment, and became more closely aligned with China. This tipping of the balance will have important ramifications. As shown in Figure 9, despite its close alignment with China in the 2005–2015 period, Sri Lanka made unsuccessful attempts to realign with the United States and India in 2015/16. These attempts were likely stymied because recent joint economic activities have made Sri Lanka more beholden to China. Therefore, this chapter concentrates on the ways and means of becoming nonaligned through realignment, and to make Sri Lanka balanced in its relations with powerful countries.

## **A. RECOMMENDATIONS**

The analysis of China's financial aid to Sri Lanka and its geopolitical effects culminates in two types of recommendations: specific and general. A number of factors discussed in this thesis and their analysis show how China's String of Pearls strategy erodes the Pearl of the Indian Ocean: Sri Lanka. China's financial aid to Sri Lanka, and its geopolitical effects, inform recommendations specific to Sri Lanka, but these recommendations create a broader model suitable for countries economically similar to Sri Lanka. Thus, this recommendations section first presents four policy recommendations related to debt repayment, multinational investments, and defense policy considerations. Second, this thesis presents a model that incorporates common features applicable to most economically weaker countries. The model can enable such countries to maintain a balance of power in their international affairs when obtaining financial assistance from economically stronger countries.

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<sup>302</sup> Ibid.

## **1. Policy Recommendations Specific to Sri Lanka**

This thesis makes four main recommendations for Sri Lanka. They include foreign, economic, and defense policy considerations, and these recommendations focus not only on maintaining Sri Lanka's geostrategic interest in the IOR, free from China's soft and hard power coercion, but also to avoid becoming unduly influenced by the two other IOR power players—the United States and India:

**Paying off the balance of the debt to China.** Sri Lanka needs to pay off the balance of the debt and free itself from China's debt trap in order to avoid China's soft power coercion. Out of the US\$ 5.3 billion of total indebtedness to China, Sri Lanka has now waived \$ 1.2 billion, having established new agreements with China to operate Hambantota harbor as a joint venture on a long-term lease basis. As the port city project has resumed without changing its terms and conditions, the \$1.5 billion investment by the Chinese remains unchanged; therefore, Sri Lanka now owes \$ 2.6 billion to China. Sri Lanka might have to consider borrowing from the IMF or the World Bank in order to get rid of China's debt trap.

**Opening Hambantota industrial zone for other international investors.** Sri Lanka has agreed to provide space for China to develop an industrial zone closer to Hambantota harbor. The envisaged industrial zone—a China–Sri Lanka joint venture—together with the Hambantota harbor operated by China. This is likely to create a monopoly in China's favor with its heavy economic activities—Hambantota harbor, Colombo port city, and Colombo harbor—on the southern and western coasts of Sri Lanka. Similarly, this arrangement is again very likely to become an incentive for China to use its soft power coercion against Sri Lanka to further Chinese geostrategic interests in the Indian Ocean. To avoid such a disadvantageous position, Sri Lanka may consider inviting other international investors to invest in the new industrial zone. Invitations might be extended to India, Japan, and other East Asian economies like the Republic of Korea and Malaysia, as potential partners for the Hambantota Industrial Zone.

**Keeping the People’s Liberation Army Navy (PLAN) Activities away from Sri Lankan harbors and territorial waters.** Sri Lanka needs to avoid China’s endeavors to use Sri Lanka for its military strategy. The historical evidence suggests that China uses its economic soft power to support its military strategies in the Indian Ocean and advance its military strategy, which has included using Sri Lanka to open an offensive front in the Indo–China War and as a port for Chinese submarines to surface twice in 2014 at the Colombo harbor. Therefore, Sri Lanka needs to keep the PLAN activities at a distance, not only from Sri Lankan harbors including Hambantota, but also from Sri Lanka’s territorial waters.

**Involving the United States and India more in future investments and development projects in Sri Lanka.** Sri Lanka, even though it has become a middle-income country in the recent past, still needs external financial support to become an economically stable country. Against such a background, Sri Lanka must concentrate on making India and the United States more involved in future investments and development projects, and by doing so, Sri Lanka will secure a better geopolitical position by becoming a nonaligned country.

## **2. Model for the Economically Weaker Countries Depending on Stronger Economies**

Findings of this thesis, though mostly applicable to Sri Lanka and drawn from the concepts of indebtedness as well as soft and hard power coercion, enable one to develop a common model for weaker economies to follow when considering bilateral relations with stronger economies. Sri Lanka’s example—including the debt trap set by China—together with the Pakistan and Vietnam case studies show how smaller economies can become vulnerable to pressure from larger countries that supply them with aid. By contrast, the Bangladesh case study shows an escape from an unfavorable geopolitical situation. Figure 11 presents the lessons drawn from this thesis and offers a model showing how weaker countries can avoid power coercion scenarios when dealing with stronger economies.

Figure 11 shows that the dependency of economically weaker countries on stronger economies, in most cases, changes the foreign policies of the weaker countries from balanced to imbalanced. As a result of indebtedness, the weaker economies have naturally aligned with the lending countries, affecting their neutrality or nonalignment in foreign relations. Indebtedness leads to soft power coercion from the stronger economies, and the situation even might lead to hard power coercion by the military. Weaker countries need to be mindful of the limits of soft and hard power coercion against them, as well as the hegemonic status of the partner exerting that pressure. The weaker might have to make a realignment with a stronger country in order to protect its own geostrategic interests and maintain some control.

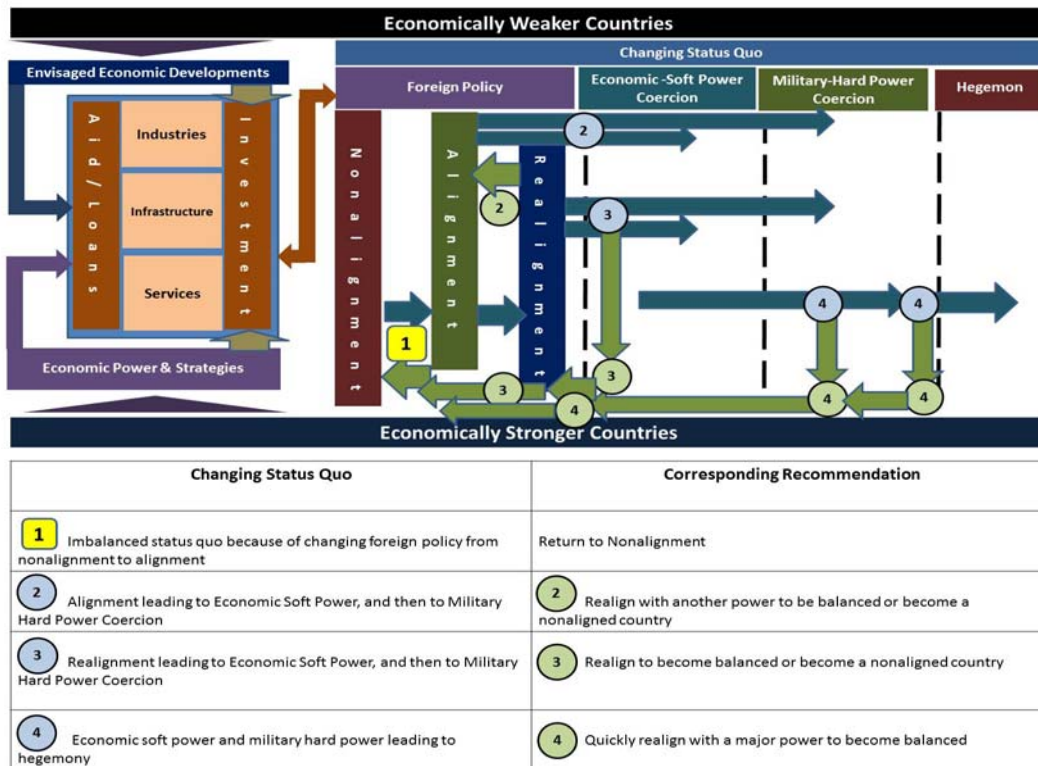


Figure 11. How weaker countries can realign to nonalignment successfully, 2017 and beyond.



### **3. Recommendations for Further Studies**

This thesis suggests a twofold recommendation for future research: first, a greater engagement of existing scholarly work and important historical cases in adopting nonalignment as the governing principle for Sri Lanka's foreign policy. Second, a separate in-depth study in searching suitable joint venture economic and infrastructure projects could be conducted with the United States and India.

**Greater engagement of existing scholarly work and important historical cases.** The hypothesis tested and the finding of this thesis advocate nonalignment as the best-suited governing principle for Sri Lanka's foreign policy, and future research work engaging existing and historical cases would reaffirm Sri Lanka adopting nonalignment in its foreign policy. A separate study delving deeper into existing scholarly work on the necessary conditions for nonalignment success and a reexamination of important historical cases would provide a much broader view on political, economic, and social factors related to adopting nonalignment as the main principle governing Sri Lanka's foreign policy. Such a study would sharpen the policy recommendations made by this thesis, and place Sri Lanka in a strong position to withstand future geopolitical challenges in the Indian Ocean.

**How the United States and India could best be more involved in future investments and development projects in Sri Lanka.** Though this thesis has recommended making the United States and India more involved in future investments and development projects in Sri Lanka, it has not conducted a major investigation to identify the most suitable project(s) for such considerations. Considering the interests of the United States and India in Indian Ocean geopolitics, and the geographical importance of Sri Lanka in IOR affairs in particular, this thesis suggests an in-depth study into where such development opportunities might exist and how the United States and India might participate jointly with Sri Lanka in those opportunities. Outcomes of such research, together with the findings of this thesis, would not only facilitate Sri Lanka to maintain a nonaligned principle in its foreign affairs, but also keep the country from being caught in debt traps in the future.

## B. CONCLUSION

In conclusion, the IOR is likely to become the most attractive region in the future in terms of both economic and military potential, and such demanding geopolitical values show how important it is for small nations, like Sri Lanka, to retain a balance in geopolitical activities with their power players. Alignment with a particular country or bloc in this kind of scenario would likely bring negative effects to the weaker countries— weaker in economic and military potential—when stronger countries attempt to impose power coercion on weaker countries to achieve their geopolitical goals. In such a geopolitical scenario, Sri Lanka needs an immediate realignment to become a nonaligned country. David Brewster highlights the possible changes in IOR geopolitics in the future, and such changes are quite pragmatic and highly relevant to Sri Lanka, in adjusting its foreign relations:

In coming years, the Indian Ocean is likely to experience a period of considerable strategic uncertainty that will involve new players and new challenges. Although the United States is likely to continue to be the strongest military power in the Indian Ocean for a long time to come, there is a risk of a significant decline in its regional presence and in its credibility as a reliable security provider. At the same time, the emergence of India and China as major naval powers will lead to a much more multipolar region. Of particular concern is the growing strategic competition between India and China, which has the potential to profoundly impact the stability and security of the region.

Dr. David Brewster<sup>303</sup>

The analysis of findings in this thesis shows that both the conditions of the central hypothesis—Sri Lanka’s success or failure to integrate nonaligned principles when establishing new economic agreements or renegotiating its debt payments with China—will impact the balance of its geostrategic interests with the major power players in the IOR. Most likely, an imbalance will occur—as when Sri Lanka has become more closely

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<sup>303</sup> Ceylon Today, “Sri Lanka’s Foreign Policy: Choice in a Changing World, June 2017, <http://www.slforeignpolicy2017.lk/abstracts.html>

aligned with China. Thus, it needs to realign with the United States and India to strike a balance in its geopolitics in the IOR.

The case study chapter showed the possibilities of losing balance and rebalancing in bilateral relations with between small countries and China or other major powers in the IOR: a win-win situation similar to Bangladesh or soft and hard power coercion leading to hegemonic effects similar to Vietnam. Considering the geostrategic interests of the United States and its cooperative strategy, and its endeavors in achieving regional stability in the IOR through domestic partners, Sri Lanka might have to consider the U.S. option to protect its own geostrategic interests and its economic benefits in the IOR. However, as shown in Figures 8 and 9, Sri Lanka should also consider India while realigning, paying particular attention to its previous consequences of brushing India aside. Sri Lanka has the greatest advantage in keeping an independent foreign policy in the post-debt negotiation period, which requires realignment of its relations with major power players. Keeping an independent foreign policy seems to increase the probability of Sri Lanka protecting its geostrategic interests. Yet, the 2015 failed realignment and Sri Lanka's entering into new agreements with China for Hambantota port and the Port City are indications of a failure to realign and put Sri Lanka at risk of China's soft and hard power coercion.

Finally, nonalignment could be the center of gravity in holding a balanced position both in geopolitics and the international political economy of the 21st century. The necessity for economically weaker countries to defeat the poverty trap sometimes pushes them toward debt traps when these states fail to strike a balance in their international economic relations. Such imbalance always reflects the imbalance of the foreign policies of a country, which initially puts them under the power coercion of the stronger nations, and ultimately leads to geopolitical issues both in regional and global contexts. To be more precise in considering Sri Lanka's situation with China—imbalanced economic relations make Sri Lanka more beholden to China—reflecting its aligned foreign policy that worried the other two power players in the IOR. In light of the admirable geopolitical reputation Sri Lanka gained when it followed a policy of

nonalignment during the middle of the 20th century, Sri Lanka should see that policy as a viable principle for maintaining a balance in its geopolitical interests in the 21st century.

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