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## Sri Lanka's Foreign Policy under the Sirisena-Wickremesinghe Government

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*While Sri Lanka's interests at its present juncture are mainly in economic development, the concerns of major powers in Sri Lanka are primarily strategic due to Sri Lanka's proximity to major global shipping lanes. Since the change of government in January 2015, from the China-leaning Rajapaksa government to the Sirisena-Wickremesinghe government espousing a nonaligned foreign policy, there has been a great increase in engagements between Sri Lanka and the United States of America, India and Japan. Engagements between Sri Lanka and China have also resumed and intensified in 2016. This paper describes the nature and breadth of Sri Lanka's key engagements with major powers, to determine Sri Lanka's foreign policy under the Sirisena-Wickremesinghe government and assess its impact for Sri Lanka and on regional stability.*

### **Introduction: State of the Economy and Economic Relations with Major Powers**

Sri Lanka is moving towards a debt trap, primarily brought on by the inability to service foreign loans, a high fiscal deficit and limited foreign currency reserves (Asian Development

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Bank: ADB, 2016). Another US \$5 billion is due in sovereign bonds settlements from 2019 to 2022, and the country is no longer in a position to increase its external borrowings to meet these payments due to its precarious balance of payments situation (“No headroom for external borrowings next 2 years: economist,” 2016; Wijewardena, 2016). Consequently, the government will also have little independence in its economic policy decisions in the medium-term. The government is advised to fully focus on increasing exports and attracting more foreign direct investment (FDI) as sources of revenue and growth to counteract the country’s macroeconomic challenges. Much of the immediate debt payments are owed to China for the \$8 billion debt incurred by the previous Mahinda Rajapaksa government (Blanchard, 2016), while the majority of the more than US \$60 billion national debt accrued over the past decades by successive governments is owed to Western-dominated institutions such as the International Monetary Fund (IMF) and World Bank. Currently, 95.4% of all government revenue goes towards loan repayments (“Leading economies offer Sri Lanka continued assistance to reduce its debt burden,” 2016). Sri Lanka also has other significant economic ties to China and Western nations. China remains Sri Lanka’s primary hope for much needed FDI to revitalise and expand economic growth, especially through the US \$1.4 billion Colombo International Financial City (CIFC) project which was restarted in August 2016, and is likely to bring in even more FDI from Chinese companies in the future.

Western nations are the biggest export markets for Sri Lanka, with about 27% of Sri Lanka’s total exports going to the United States, about 40% going to the European Union, and about 10% going to the United Kingdom, mostly in the form of garments and textiles (World Integrated Trade Solution, n.d.). India is the third largest export market for Sri Lanka by country, receiving about 7% of total exports. Exports are Sri Lanka’s second largest source of foreign exchange after foreign remittances. India and the U.S. and other Western nations are also important sources of FDI for Sri Lanka. Thus, on such economic grounds alone, it is in Sri Lanka’s best interest to maintain good relations with all these foreign countries.

Revenue from tourism, the country’s third highest foreign exchange earner, continued to surge in 2015 with US \$2.98 billion in earnings, exceeding the US \$2.43 billion in 2014. Nearly 1.8 million tourists came to Sri Lanka in 2015, while tourist arrivals from all regions have been steadily increasing since 2010 (Central Bank of Sri Lanka, 2016). By region, the highest number of tourist arrivals are from Asia (650,810 in 2014, which increased to

822,272 in 2015), followed by Europe (633,160 in 2014, which increased to 700,900 in 2015).

However, the change in government in January 2015 has had no positive impact on trade, FDI inflows, or the country's overall macroeconomic position thus far. Exports have decreased, albeit due to increasingly challenging global financial conditions. The trade deficit increased marginally from about US \$8.3 billion in 2014 to more than US \$8.4 billion in 2015 (from 1.2% of GDP in 2014 to 2.2% of GDP in 2015) (Central Bank of Sri Lanka, 2015), and continued to widen in 2016. FDI decreased significantly, from 1.1% of GDP (US \$894 million) in 2014 to 0.8 of GDP (US \$681 million)<sup>2</sup> in 2015 (The World Bank, 2014; United Nations Conference on Trade and Development: UNCTAD, 2016). Sri Lanka continued to experience a net FDI outflow in 2016 (Central Bank of Sri Lanka, 2016).

Very significantly, the number of green field investments which act as catalysts for growth in developing countries, decreased palpably from 1,906 in 2014 to 1,167 in 2015 (UNCTAD, 2016). Real GDP growth rate decreased slightly from 4.9% in 2014 to 4.8% in 2015 (Central Bank of Sri Lanka, 2015), but remains strong especially due to the booming tourism and construction sectors and infrastructure development. The real GDP growth rate for 2016 and 2017 are estimated to be 5% of GDP (International Monetary Fund: IMF, 2016).

Sri Lanka's rate of inflation continues to rise (ADB, 2016). The continued depreciation of the rupee has made the repayment burden on foreign loans even larger. Rising inflation is also known to have a negative impact on FDI inflow (Ravinthirakumaran, Selvanathan, Selvanathan, & Singh, 2015), although it is known to have a positive impact on the export sector as exports are made more competitive in the global market. The overall budget deficit increased from 5.7% of GDP in 2014 to 7.4% of GDP in 2015 (Central Bank of Sri Lanka, 2015). Overall government debt increased from 70.7% of GDP in 2014 to 76% of GDP in 2015 (foreign debt increasing from 29.8% to 31.7% of GDP, and domestic debt increasing from 40.9% to 44.3% of GDP) (Central Bank of Sri Lanka, 2015). Global credit rating agencies Fitch, Standard and Poor's, and Moody's downgraded Sri Lanka's international sovereign rating with a negative outlook in early 2016, mainly in light of the country's serious balance of payments risks and fiscal vulnerabilities.

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<sup>2</sup> FDI into Sri Lanka has always been relatively low and under US \$1 billion. It has been decreasingly gradually since its height in recent years in 2012 with an inflow of US \$941 million (1.5% of GDP) (Verite Research, 2013).

## **Impact of the Change in Government on Sri Lanka's Foreign Policy and Relations with Major Foreign Powers**

While Sri Lanka's interests are mostly economic in nature at its present juncture in economic development, the interests of global powers the United States and China, as well as the regional powers India and Japan, are strategic. Their primary interest lies in Sri Lanka's strategic location in the Indian Ocean, in close proximity to Indian Ocean Sea Lines of Communication (SLOCs) carrying two-thirds of the world's oil and half of all container shipments. For India, the growing Chinese presence in Sri Lanka and South Asia in general, i.e. what it considers its sphere of influence, is also an overwhelming concern.

China made large-scale and long-term investments in Sri Lanka from 2011 in the strategic sector of ports, during the tenure of the previous president Mahinda Rajapaksa, to secure its strategic interests in the island. This included 20 hectares of freehold land via the Colombo Port City project. These developments vis-à-vis China's economic clout and growing military capabilities, made a firm geopolitical impact by causing insecurity to China's strategic rivals, the United States, India, and Japan. Hence with the change of government in 2015, the United States, India and Japan have sought to respectively rebalance the strategic sphere in relation to Sri Lanka through enhanced political engagements with or increased access to finance, investments, or aid for Sri Lanka. Moreover, it is alleged that India and the United States supported the Sirisena-Wickremesinghe government to come into power in Sri Lanka, upon an understanding to support each others' core interests and address main concerns (Chowdhury, 2015; Chalmers & Miglani, 2015; Ratnayake, 2015; "Port City: Indian pressure forced SL to suspend and revisit project: Rajitha," 2016).

However, the current government asserts an "absolutely non-aligned" foreign policy as stated by President Maithripala Sirisena (International Institute for Strategic Studies: IISS, 2016). The paper will go on to describe the major political, economic, strategic and cultural agreements and exchanges between Sri Lanka and the big and regional powers that have transpired since the change of government in January 2015, so that the Sirisena-Wickremesinghe government's foreign policy can be assessed. It can then also be assessed whether a balanced foreign policy which contributes to the stability of Sri Lanka and the region has been achieved.

## Sri Lanka-China Relations

Sri Lanka and China have had cordial relations historically, and in some periods very warm relations such as in the 1960s and 1970s, during Sirimavo Bandaranaike's government. Sri Lanka's trade relationship with China, however, is unbalanced and dominated by imports from China. China is Sri Lanka's second largest import partner, after India (22.5% of imports were from China in 2015) (World Integrated Trade Solution, n.d.). Chinese economic engagement with Sri Lanka increased exponentially between 2011 and 2014, during the tenure of the previous Mahinda Rajapaksa government (19 November 2005 – 9 January 2015). The number of Chinese tourists to Sri Lanka spiked in 2014 and continued to rise in 2015 and 2016 (Jayasinghe, 2015; "Sri Lanka sees rise in tourist arrivals due to growth from China," 2016). By country, the second highest number of tourists to Sri Lanka come from China, after India (Sri Lanka Tourism Development Authority, 2015).

Of the US \$5.056 billion assistance China has provided Sri Lanka between 1971 and 2012, \$4.7 billion (about 94 percent) was given after 2005 when Mahinda Rajapaksa was in power ("China, Sri Lanka and politics of Indian Ocean," 2016). Chinese FDI into Sri Lanka was US \$403.5 million in 2014 (Bhatia, 2016), 45% of the total \$894 million in FDI in 2014 (UNCTAD, 2016). Chinese investment in Sri Lanka has increased sharply, from just \$4.1 million in 2010. China also replaced Japan as Sri Lanka's largest donor in 2014 (Bhatia, 2016). Chinese FDI went into large-scale and long-term projects of strategic value to China. These include the Colombo South Container Terminal (CSCT) which was established in 2011 for Colombo International Container Terminals (CICT) (mostly funded and owned by the China Merchants Holdings company),<sup>3</sup> and the US \$1.4 billion scale Colombo Port City project (funded by China Communications Construction Company: CCCC) which began in 2011 but was fully launched in September 2014 – set to be the largest FDI project in Sri Lanka's history. CICT is running profitably (Wijesinha, 2016) and has added to the Colombo Port's success,<sup>4</sup> led by South Asia Gateway Terminals (SAGT) which is mostly owned by local John Keells Holdings and Danish conglomerate A.P. Moller-Maersk Group<sup>5</sup>. During the

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<sup>3</sup> Colombo International Container Terminals Ltd. (CICT) is a joint venture company between China Merchants Holdings (International) Co. Ltd. (CMHI) and the Sri Lanka Ports Authority (SLPA) with a respective ownership share of 85:15.

<sup>4</sup> The Colombo Port is rated the best container port in South Asia, and is currently ranked at 30th place globally. It is set to rise to the 21<sup>st</sup> position in the near future (World Shipping Council, 2016; Department of Government Information, 2016).

<sup>5</sup> SAGT is owned by local and international companies: John Keells Holdings PLC, A.P. Moller Group, Evergreen International SA, Peony Investments SA, and Sri Lanka Ports Authority ("About SAGT", n.d.).

previous government, the relationship between Sri Lanka and China elevated to a Strategic Cooperative Partnership (Ministry of Foreign Affairs Sri Lanka, n.d.).

Large-scale commercially unyielding projects like the Hambantota Port (Magampura Mahinda Rajapaksa Port) project and Mattala Rajapaksa International Airport, financed on loans from China, moved Sri Lanka closer to a debt trap (Sirimanna, 2011; Ekanayake, 2015). Although the two port projects were financed at a 2% per annum interest rate (“Sri Lankan Govt. Should Have Gratitude for the Things Given – China,” 2016), many of the infrastructure projects financed by commercial loans from Chinese companies came with high interest rates and short repayment periods. However, these infrastructure development projects helped spur much needed post-war economic growth. Close to 70 percent of the infrastructure projects (in roads, ports, power and railways) in the country were built by Chinese companies since the end of the war in 2009 (“Lanka aims to implement FTA with China,” 2016). Sri Lanka experienced record high real GDP growth rates in the post-war years, with 8.4% growth in 2011 and 9.1% growth in 2012 (which however decreased markedly to 3.4% in 2013) (ADB, 2016).

The Sirisena-Wickremesinghe political opposition criticised and ridiculed China and Chinese investments in Sri Lanka in an extreme fashion in their election campaigns ahead of the presidential elections in January 2015 and parliamentary elections in August 2015 (“China, Sri Lanka and politics of Indian Ocean,” 2016), likely seeking the support of India and the United States at the time. Soon after Mr. Maithripala Sirisena was elected President in January 2015, he temporarily suspended the Colombo Port City project. The government claimed that the project contract was made in violation of local laws and that it did not meet environmental requirements, while simultaneously declaring that the project is to remain a part of development plans for the Western Province (Aneez, 2015; Pillalamarri, 2015). The suspension of the Colombo Port City project, which Chinese President Xi Jinping himself oversaw the inauguration of during his visit to Sri Lanka in September 2014, undoubtedly strained relations between Sri Lanka and China. Chinese envoy to Sri Lanka later described this as a “low period” in China-Sri Lanka relations (“China to continue to support Sri Lanka's economic, social development: ambassador,” 2016). In early 2016, the government-owned China Communications Construction Company (CCCC) demanded compensation for US \$143 million, claiming that it had incurred losses of \$380,000 a day since the shutdown in January 2015. FDI from China reduced dramatically to US \$66 million in 2015 (Board of

Investment of Sri Lanka, n.d.) from the \$403.5 million in 2014. The number of inbound Chinese tourists continued to rise in 2015, however, with 214,783 Chinese tourists in 2015—a 67.6% increase from 2014’s 128,166 (Sri Lanka Tourism Development Authority, 2015).

Signs of a rapprochement began to show in the latter part of 2015 with high-level talks resuming between the two countries. In March 2016, the Chinese Central Bank undertook a currency swap of US \$1 billion to assist Sri Lanka with its foreign exchange shortfall.

The Sri Lankan Prime Minister Ranil Wickremesinghe’s official visit to China from the 6<sup>th</sup> to 9<sup>th</sup> April restored and consolidated ties between the two countries to a great extent. On 7 April, 2016, a Memorandum of Understanding (MOU) was signed between the Ministry of Commerce of the People’s Republic of China and Ministry of Development Strategies and International Trade of Sri Lanka to resume work on the Colombo Port City project as part of a 20-year framework, and that Sri Lanka will facilitate and support the implementation of this project. Six other agreements were also signed during the visit: (1) an MOU on the completion of the second phase of the Southern Highway; (2) an extradition treaty between the two countries; (3) an MOU between the Chinese Development Bank and the Central Bank of Sri Lanka; (4) a technical cooperation agreement between the two countries; (5) a kidney mobile screening project; and (6) an MOU between the National Science Foundation of China and National Science Foundation of Sri Lanka.

On 9<sup>th</sup> April, Sri Lanka and China issued a Joint Statement on cooperation (Ministry of Foreign Affairs Sri Lanka, 2016). In the statement, Sri Lanka reiterated its active participation in China’s strategic Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road (‘Belt and Road’) intercontinental trade and infrastructure project, “as Sri Lanka was in ancient times, the centre of the Indian Ocean trade.” China agreed to provide financial support for the infrastructure projects in Sri Lanka. Both countries pledged mutual cooperation, “everlasting friendship,” and to support each other on “fundamental interests.” China also made a donation of US \$73.5 million (500 million yuan) to Sri Lanka during the visit as a gesture of friendship.

Subsequent to the visit, the Sri Lankan Prime Minister stated that: “Infrastructure is just a start. The cooperation between China and Sri Lanka is expected to be intensified and go far beyond that...For example, the Colombo Port City will become a financial and business hub, in not only Sri Lanka, but also in the whole region of the Indian Ocean” (“Sri Lankan PM

sees huge potential in cooperation with China,” 2016). In May 2016, when the disastrous floods and landslides hit Sri Lanka due to heavy torrential rains, China gave the most amount of financial and material help with US \$2.28 million (15 million yuan) worth of emergency supplies and US \$1.5 million in cash for relief work. In July 2016, the Sri Lankan government announced that it is to obtain a US \$1 billion loan from the China-led Asian Infrastructure Investment Bank (AIIB) for various infrastructure projects, and that it may borrow more in the future (“Govt. to obtain US\$1 bn loan from AIIB,” 2016).

On 12 August, 2016, Sri Lanka and China signed a tripartite agreement between Sri Lanka’s Urban Development Authority, the Ministry of Megapolis and Western Development, and the China Harbour Engineering Company (CHEC) (subsidiary of CCCC) to proceed with the Colombo port city project, renamed the Colombo International Financial City (CIFC). The agreement replaced the previous agreement signed in September 2014. The two governments had agreed that the project is to constitute a ‘financial city,’ situated between Singapore and Dubai (“Sri Lanka, China sign tripartite deal to construct mega port city,” 2016). The CIFC is to undertake offshore operations for which the Sri Lankan government would enact new laws. The project was expanded to 269 hectares of reclaimed land under the new agreement from the previous 233 hectares, mainly to add 28 hectares more of public lands to be used by the general public (more parks, roads, walkways, and more). The Chinese company agreed to take 20 hectares of reclaimed land on a 99-year lease, and not on freehold (outright purchase) basis as stipulated in the previous agreement (“Chinese developer of Colombo Port city Project agrees to withdraw compensation claims for losses incurred due to suspension,” 2016; Naleer, 2016). The company also agreed not to pursue with the US \$143 million demand for compensation for Sri Lanka suspending the project for over a year. In compensation, the company was instead given two more hectares of land for its use in the project. As before, the Sri Lankan government will own and manage 62 hectares of the project’s land area. However, unlike in the previous agreement, no immovable properties may be built on Sri Lankan lands. The new agreement also binds the company to 70 conditions to limit environmental damage, many more than the 42 conditions in the previous agreement. The present government has also appended the project to a US \$30 billion scale Western Mega-City plan spanning the Western Province of Sri Lanka, which would also enable more diverse sources of foreign funding to come in. The government as well as China have also welcomed other countries to invest in and take part in the Financial City project.



The \$1.4 billion scale Financial City, with its international banking and financial services companies, luxury hotels, luxury apartment complexes, shopping malls, a marina and much more, is to bring Sri Lanka a great amount of revenue and development along with tens of thousands of job opportunities. It is ultimately envisioned to become a major shipping and financial hub in the Indian Ocean and attract more than US \$13 billion in FDI (“Sri Lanka to be transformed to a smart country, says Megapolis Minister,” 2015). Chinese companies are interested in bringing in billions of dollars more in FDI to the project (“China ready to pump in over US \$ 5bn in FDIs: envoy,” 2016). In July 2016, Prime Minister Wickremesinghe, while on an official visit to Singapore, stated that Sri Lanka needs East Asia led by China to propel its economic development (Jabbar, 2016). In August 2016, following his second visit to China and having visited Chong Jing City, the premier said that “Sri Lanka will focus on Chinese models of development concepts” (“SL will focus on Chinese development models,” 2016). Other Chinese infrastructure projects have also started or resumed in Sri Lanka. In October 2016, Sri Lanka made the decision to lease 80 percent of the Hambantota port to a Chinese firm for US \$1 billion on the basis of a public-private partnership (PPP). This arrangement also constitutes a debt-equity swap for the billions of dollars that Sri Lanka is in debt to China due to the Hambantota projects. Sri Lanka also aims to finalise an agreement on the US \$750 million second phase of the Hambantota port soon, as well as sign an agreement with China to set-up a 15,000-acre Special Economic Zone on 99-year lease near the Hambantota port, which could possibly be used for oil refineries, power plants or other industrial investments. FDI from China will cross US \$400 million in 2016 (“China to continue to support Sri Lanka's economic, social development: ambassador,” 2016).

The 2<sup>nd</sup> China-Sri Lanka Defence Cooperation Dialogue was held from 12 to 15 October, 2016, during which China gave US \$17.8 million (120 million yuan) in military assistance to Sri Lanka. On 16 October, 2016, Chinese President Xi Jinping met with Sri Lankan President Maithripala Sirisena on the sidelines of the Brazil-Russia-India-China-South Africa (BRICS) Outreach Summit in Goa, India. President Xi stated that Sri Lanka and China should continue to maintain high-level meetings and continue to support each other on core interests, while President Sirisena thanked China for the assistance in developments projects as well as China’s support for Sri Lanka in the international arena. Sri Lanka hopes to negotiate a free trade agreement (FTA) with China in the coming year, as it hopes to become a regional trade hub with preferential access to large markets such as India and China. Presently, Sri Lanka’s trade relationship with China is mainly one-sided, with imports from China.

China has expressed interest to cooperate with Sri Lanka in the fields of maritime connectivity, marine economy (including fisheries), marine scientific research, and marine environmental protection. The Chinese government has offered to give technical assistance for the development of fresh water fisheries in Sri Lanka, and accordingly, an MOU was signed in September 2016 between Sri Lanka's National Aquaculture Development Authority (NAQDA) and the Agricultural, Animal Husbandry, and Fishing Bureau of Guangxi Zhuang region. Cultural exchanges also take place, such as the "Xinjiang Culture Week" which was held in Colombo in October 2016.

In early November 2016, China-Sri Lanka relations were stirred to an extent, as Chinese envoy to Sri Lanka Yi Xianliang criticised the Sri Lankan government of being biased against China, pointing particularly to several instances where Sri Lanka's Finance Minister Ravi Karunanayake had, in his view, misrepresented information related to Chinese investments in Sri Lanka ("Don't politicise issues concerning development and business: Chinese Ambassador," 2016). Sri Lanka's Foreign Ministry subsequently summoned the Chinese envoy to place on record Sri Lanka's "displeasure" at his remarks ("Foreign Secy rings Chinese envoy," 2016). However, Sri Lanka maintains that China is a "good friend" and is important for Sri Lanka's economic development ("Important first step taken to resolve fisheries conflict," 2016).

### Sri Lanka-India Relations

India is Sri Lanka's largest trading partner, and trade between India and Sri Lanka was close to US \$5 billion in 2015. India is Sri Lanka's third largest export market, although the trade relationship is dominated by imports from India. By country, most tourists have come from India in the recent decades. There were 242,734 inbound Indian tourists in 2014 and 316,247 in 2015, marking a 30.3% increase in 2015 (Sri Lanka Tourism Development Authority, 2015). Tourists from India have continued to increase in 2016.

Politically, however, Sri Lanka's relationship with India has been strained. Since Mr. Narendra Modi became the Prime Minister of India with the Bharatiya Janata Party (BJP)'s clear majority win in India's 2014 national elections, India's stance towards Sri Lanka has shifted. The party has expressed regret for the Indira Gandhi government's role in sponsoring terrorism in Sri Lanka in the 1980s and has pledged non-interference in Sri Lanka's internal

matters (Izzadeen, 2014). The BJP's victory also marked the end of coalition politics in India after 30 years, allowing the Indian government to pursue its foreign policy towards its neighbours without having to succumb to regional pressures through alliance partners. For Sri Lanka, this meant that the India-Sri Lanka relationship did not have to be directly influenced by the anti-Sri Lanka sentiment of the southern Indian state of Tamil Nadu.

However, Sri Lanka's close relationship with China under the Rajapaksa government deterred its potentially cordial relations with India under the Modi government. The development which caused the most concern to India was Sri Lanka's granting of 20 hectares of (reclaimed) land on freehold basis to the government-owned China Harbour Engineering Company (CHEC) under the Colombo Port City project agreement signed in September 2014, which could have subsequently been developed into a Chinese naval or security base ("Sri Lanka to allow Chinese subs to visit, inform neighbours," 2015). This, combined with the new Chinese-run Colombo International Container Terminals (CICT) for port transshipments established in 2011 and the Hambantota port being built a few nautical miles from the major East-West shipping route, caused further insecurity to India, as 75 percent of Colombo Port's transshipments are from India. A move which insulted and caused Colombo to fall out of favour with New Delhi completely, is deemed to be Sri Lanka's not adhering to protocol by officially informing India prior to the docking of a Chinese submarine in 2014. India is also contending with a situation where China is building ports and other strategic infrastructure projects in neighbouring countries on all sides – in Pakistan, Bangladesh, Myanmar and the Maldives.

The Sirisena-Wickremesinghe government has proved to be more sensitive to India's security concerns. As described earlier, the new Colombo city project no longer allows for any land to be given on freehold basis to the Chinese company. The Sri Lankan government has also relocated its southern naval base from Galle to Hambantota – the other site bearing primarily Chinese investments. The current government has also assured that it will abide by protocol, so that India is informed ahead of any foreign naval visit.

Sri Lanka and India signed four MOUs during President Sirisena's first state visit to India in February 2015: (1) an agreement on cooperation in the peaceful uses of nuclear energy, (2) an agreement for a programme of cultural cooperation between Sri Lanka and India for the years 2015-2018, (3) an MOU to facilitate Sri Lanka's participation in the Nalanda (Buddhist) University Project in India, and (4) an agreement on the 2014-2015 Work Plan for

Cooperation in the field of Agriculture. In March 2015, Prime Minister Modi made an official visit to Sri Lanka, marking the first bilateral visit by an Indian head of state in 28 years. Thus, premier Modi's visit infused a new strength and vitality to the India-Sri Lanka relationship.

The Indian government has been assisting Sri Lanka with currency swaps since early 2015 to ease Sri Lanka's depletion in foreign reserves and foreign exchange shortfall. In April 2015, the Reserve Bank of India (RBI) made a US \$400 million currency swap with the Central Bank of Sri Lanka. In July 2015, an additional US \$1.1 billion was given under a special currency swap agreement. In March 2016, India made a US \$700 million currency swap with Sri Lanka under a new agreement.

The government proposed an enhanced bilateral economic agreement with India, named the Economic and Technology Cooperation Agreement (ETCA) in early 2016. However, there was great domestic opposition to the proposed agreement and mass protests were carried out by an estimated 8,000 professionals in the country in February 2016 against the signing of the ETCA with India ("Protest rally against ETCA," 2016; "'Professional' agitation pushes Govt. into discussing ETCA," 2016). They feared a variety of negative outcomes for Sri Lanka if the agreement comes into being (Ahlam, 2016). Their foremost worry was Indian labour coming into Sri Lanka through the inclusion of services in the proposed agreement. Protesters also made the point that under the ongoing FTA with India, India has enjoyed the majority of the bilateral trade due to non-tariff barriers, and that therefore they suspect the same barriers to remain even under a new agreement. The fact that the government had recently solicited the services of an Indian ambulance company through the Prime Minister's Office, before calling for possible local alternatives, was another factor which exacerbated the issue. The protestors also did not trust the government's ability to wield a fair agreement with India, given that successive Sri Lankan governments have not been able to resolve the longstanding issue of Indian fishermen bottom-trawling in Sri Lanka's waters, despite the issue clearly harming Sri Lanka's economic interests with Sri Lanka losing millions of dollars in marine resources annually due to it ("Settle fishermen issue before economic pact with India: Sri Lankan groups," 2016). Presently, the government has agreed to discuss the proposed ETCA agreement with relevant stakeholders before it is implemented, and have included them in the government negotiating committee, calming the opposition against the ETCA. Official talks began in August 2016, and the two countries plan to finalise the agreement by March 2017.

Another source of contention which transpired in the latter months of 2015 which deepened the Sri Lankan public's mistrust towards India, was India's proposal to build a tunnel-sea bridge between the two countries. The US \$5.19 billion project had already been publicly supported by the Asian Development Bank (ADB), which was to finance the project – all before the idea was internally debated within the Sri Lankan government and people (“Talks with Sri Lanka on \$5.19 billion road project to begin by October,” 2015). The Sri Lankan government has consistently denied involvement in the project, fearing mass protests against the project. Such a project is deemed to threaten the territorial integrity of Sri Lanka as well as increase the security threat from the southern state of Tamil Nadu with its Liberation Tigers of Tamil Eelam (LTTE)<sup>6</sup> presence (“LTTE still very much alive in Tamil Nadu,” 2016; “Sri Lankans oppose sea bridge with India,” 2015). The project seems to be abandoned by the Sri Lankan government at this juncture. In July 2016, seeming to sense the Sri Lankan public's negative sentiment and mistrust towards India, Prime Minister Modi stated: “India's development cooperation with Sri Lanka encompasses a wide spread of projects throughout Sri Lanka in different areas of economic activity. But it must happen as per your aspirations. It is for this reason that our cooperative projects rely on the choices and priorities set by the people, the leadership, and the government of Sri Lanka” (Balachandran, 2016). He made this statement at the inauguration of the prehospitallisation ambulance service run with an Indian government grant of US \$7.55 million – which was possibly meant to wield goodwill among the people, but was instead initially viewed suspiciously by Sri Lankans as an intrusion into the domestic economy.

It seems that the present Sri Lankan government as well as the Indian government are taken to address the bottom-trawling issue more earnestly than before, possibly viewing its resolving as a stepping stone to greater bilateral ties, such as through the ETCA. The issue consists of the Sri Lankan government's and the Sri Lankan northern fishermen community's opposition to Indian fishermen from Tamil Nadu poaching in the Palk Bay on the Sri Lankan side of the International Maritime Boundary Line (IMBL), using illegal methods of fishing such as bottom-trawling. The political leadership of Tamil Nadu does not accept the IMBL, and claims the seas are traditional fishing ground of the Tamil Nadu fishermen. In Sri Lanka, if a fisherman is seen to trespass the IMBL, his fishing licence is revoked. The bottom-trawling by Indian fishermen directly affects the fishing communities of northern Sri Lanka,

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<sup>6</sup> The LTTE was considered the world's most dangerous terrorist group (Federal Bureau of Investigation: FBI, 2008; South Asia Terrorism Portal: SATP, n.d.).

threatening their livelihoods and impeding post-war rehabilitation, and also causes irreparable damage to marine life. It is also estimated that Sri Lanka's fisheries industry loses about US \$41 million annually due to the poaching by Indian fishermen ("Lanka loses over Rs.5 b. yearly due to fish poaching: Think tank," 2015). Following a ministerial level meeting on 5 November, 2016, a historic Joint Working Group on Fisheries was formed between India and Sri Lanka. It is to convene every three months, and its Terms of Reference includes "expediting the transition towards ending the practice of bottom-trawling at the earliest" (Ministry of Foreign Affairs Sri Lanka, 2016).

Sri Lanka showed support for India following the Uri terror attack by Pakistani militants in September 2016, by issuing a statement of condolence and subsequently making a statement that the prevailing environment was not conducive for the next South Asian Association for Regional Cooperation (SAARC) summit to be held in Islamabad in November (IANS, 2016; Srinivasan, 2016) – although Sri Lanka continues to maintain friendly relations with Pakistan also. During the Sri Lankan Prime Minister Ranil Wickremesinghe's official visit to India from 4<sup>th</sup> to 6<sup>th</sup> October, he stated the need for SAARC nations to tackle cross-border terrorism, and that India is the hope for the region's growth ("SAARC nations need to tackle cross-border terror: PM," 2016). He also stated that war between India and Pakistan is not an option. During the visit, the President of India Pranab Mukherjee stated that Sri Lanka is situated in an important location in India's neighbourhood, and that the security of the two countries is "indivisible" ("India commits over US\$ 2.6 billion aid for Sri Lanka development projects," 2016). President Maithripala Sirisena held bilateral discussions with Prime Minister Modi on 16 October, 2016, on the sidelines of the BRICS Outreach Summit. President Sirisena reiterated that it stands firmly against terrorism in all its forms, and Prime Minister Modi thanked Sri Lanka's solidarity with India after the Uri terror attack ("BRICS summit: Lanka, Bhutan back India's stand on cross-border terror," 2016). On India's part, in mid-July 2016, India's Ambassador to the United Nations, Sayed Akbaruddin spoke indirectly in support of Sri Lanka at the United Nations Human Rights Council (UNHRC) that week, stating that India is against country-specific UNHRC resolutions and "aggressive naming and shaming" ("US-Lanka agree on nature of war crimes judicial mechanism," 2016). Indian security forces also consistently arrest and detain individuals deemed security threats to Sri Lanka, including in the state of Tamil Nadu ("Hundreds arrested in TN during SL protests," 2015; "Sri Lanka national with LTTE links deported," 2016). India and Sri Lanka held its fourth annual 'Mitra Shakti' ('strength in friendship') 14-day joint military

exercise from 28 October to 6 November 2016, focused on transnational terrorism and developing interoperability in counter-terrorism operations. In other developments in the security sector, Sri Lanka is to purchase two Advanced Offshore Patrol Vessels (OPVs) at US \$74 million each from India's Goa Shipyards Ltd. for the Sri Lanka Navy.

In September 2016, India's Minister of Commerce and Industry, Nirmala Sitharaman, during her visit to Sri Lanka, assured that India will invest up to \$2 billion in Sri Lanka in the next three to four years, mainly for the development of the Palaly airport in the north and the joint venture oil refinery in Trincomalee between the Ceylon Petroleum Corporation (CPC) and the Indian Oil Company (IOC)<sup>7</sup> in the east, among other projects (Srinivasan, 2016). India has also expressed interest in completing the development of the Kankasanthurai (KKS) Port in Jaffna as a joint venture with Sri Lanka,<sup>8</sup> which once developed would be the closest port to eastern India as well as Myanmar and Bangladesh (Mitra, 2015). Delivering the keynote speech at the Colombo International Maritime Conference (CIMC) in September 2016, Prime Minister Wickremesinghe stated that Sri Lanka is interested in joining India's 'Sagarmala' ('necklace of the seas') Project, which focuses on modernising ports and port-led development and harnessing ocean resources to augment national growth. In this, he envisions for Sri Lanka to form a US \$500 billion sub-regional economy centred on ports and shipping with cooperation from Southern Indian states (Andhra Pradesh, Tamil Nadu, Kerala and Karnataka).

FDI from India to Sri Lanka in 2015 remained at the same level as in 2014, at about US \$50 million (Board of Investment of Sri Lanka, n.d.). According to Sri Lanka's Board of Investment (BOI), these investments have taken place across multiple sectors, such as petroleum, IT, financial services, real estate, tourism, food processing, tires, cement, glass manufacturing and infrastructure. Investment ties are set to grow further in petroleum and petrochemicals, infrastructure, real estate and food-processing in 2016-2017 (Raman, 2016). In July 2016, the Sri Lankan government also expressed its desire to establish a Special Economic Zone for Indian industries (first floated in 2012), such as pharmaceuticals and automobile parts industries.

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<sup>7</sup> Indian Oil Corporation Ltd. (IOC) currently operates 183 retail outlets in Sri Lanka and has about 20% market share of petroleum products in Sri Lanka.

<sup>8</sup> Sri Lanka and India entered into an agreement to rehabilitate and develop the KKS harbour in July 2011, and under the agreement, the dredging of the harbour was completed in 2013 at an Indian grant of US \$19.5 million ("National security a priority during development of Kankasanthurai port - Minister Arjuna Ranatunga," 2016).

In July 2016, Sri Lanka received a US \$318 million loan from the India's Export-Import (EXIM) Bank of India (carrying a relatively low interest rate of 1.75%, with a repayment period of 20 years), for the upgrading of two major railway lines in the north and north-central parts of the country (Ramakrishnan, 2016). However, 75 per cent of the goods and services are to be sourced from India for this project. The project is undertaken by Indian government-owned Ircon International, as with previous railways projects in Sri Lanka. In March 2016, the EXIM Bank of India issued a credit line of US \$403 million to Sri Lanka to fund three water supply projects in different parts of Sri Lanka that are to assist one million people.

Indian financial aid has reached diverse parts of the country in 2015-2016, going beyond the conflict-affected areas. In September 2016, India opened an English language training laboratory in the south-western Ratnapura district, as a part of its approximately US \$571,500 (Rs.84 million) program launched in 2011 to establish an English language training system in each of Sri Lanka's nine provinces. In July 2016, India committed to building a US \$1.8 million auditorium at the University of Ruhuna in southern Sri Lanka. In June 2016, India committed to building 4,000 houses in the underdeveloped districts of the Central and Uva Provinces – a project to be jointly implemented by the Sri Lankan government and United Nations and other international organisations. These houses are a part of India's commitment to construct 50,000 houses in Sri Lanka, of which 45,000 houses are to be built in the conflict-affected Northern and Eastern Provinces. In October 2016, India made a grant of about US \$2,040,000 (Rs.300 million) to construct 3,000 rainwater harvesting tanks in the drought-affected Jaffna District.

In September 2016, India provided a grant of about US \$816,000 (Rs.120 million) to construct a training school at the Sri Dalada Maligawa Buddhist temple in Kandy, which would teach different traditional arts as well as conduct courses on the preservation ancient paintings and frescos. In May 2016, the Sri Lankan President was invited by India to unveil a statue of Angarika Dharmapala, the Sri Lankan Buddhist activist who played a major role in the revival of Buddhism in India (and Sri Lanka) at Sanchi, Madhya Pradesh, India. President Sirisena stated at the occasion: "Since our two countries have had extremely intimate bilateral relations for centuries, I consider this invitation as a firm endorsement of goodwill and friendly attitude towards each other." He also commended the Indian government's efforts in preserving and developing Buddhist archaeological sites, and said that, "as the premier of a



country with a majority Buddhist population, I have special reasons to be happy” (NDTV, 2016). In July 2016, the Indian government announced the launching of the ‘Mausam’ project to strengthen historical maritime economic ties and cultural ties with 39 Indian Ocean countries, including Sri Lanka and China. The Archaeological Survey of India and the Indira Gandhi National Centre for Arts have presently begun working with these countries, including the relevant bureaus in China.

### Sri Lanka’s Relations with the United States

There have been five United Nations Human Rights Council (UNHRC) resolutions against Sri Lanka led by the United States of America in 2009, 2012, 2013, 2014 and 2015 since the Sri Lankan government’s military victory over the Liberation Tigers of Tamil Eelam (LTTE)<sup>9</sup> organisation, calling for international involvement in probing into alleged war crimes in Sri Lanka in the last stages of war. It is Sri Lanka’s view that the resolutions are biased against the Armed Forces of Sri Lanka who rescued more than 300,000 civilians, and that they “soft-peddled” the LTTE’s holding of civilians as human shields and shooting at those who attempted to flee, which caused the most civilian deaths during the final stages of the war (Marasinghe, Range, & Mudalige, 2015; Balachandran, 2015; “‘Unbelievable’ US pressure led to UN resolution: Sri Lanka,” 2014). Given the fact that the LTTE was a despotically run militant organisation (SATP, n.d.) that directly threatened the sovereignty of Sri Lanka and the security of its people, the Sri Lankan government asserts that these views do not take into account the “principles of self-defence or reasonableness of retaliation, proportionality, or a technical analysis of the trajectories of the shells allegedly fired, to determine their source” (“Sri Lanka hits out at UN’s Petrie report,” 2012). The civilian casualty figure of the final stages of the Sri Lankan war remains unknown.<sup>10</sup> Sri Lanka under the Sirisena-Wickremesinghe government continues to reject the inclusion of foreign judges in an investigation into alleged war crimes (Ameen, 2016; “Alleged war crimes: PM announces probe will be domestic, no foreign judges,” 2016), although the government co-sponsored the

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<sup>9</sup> The LTTE was considered the world’s most dangerous terrorist group (Federal Bureau of Investigation: FBI, 2008; South Asia Terrorism Portal: SATP, n.d.).

<sup>10</sup> The death toll and civilian casualty figure of the last stages of the Sri Lankan war is unknown. However, there are unofficial estimates such as the one received by the U.S. government of 6,710 deaths of both civilians and LTTE members from January 2009 up to 20 April, 2009, from an unnamed organisation (U.S. Department of State, 2009), and the Sri Lankan Army estimate of total civilian deaths as between 2,000 and 3,000 from the year 2006 up to the last day of war on 19 May, 2009 (Gunaratna, 2013).

UNHRC resolution of 2015. There are also believed to be double standards at play, as for example, Britain's role in the Iraq war was investigated with no foreign involvement by British judges and Privy Councillors (de Silva, 2016).

The UNHRC resolution controversially also calls for the “demilitarisation” of conflict-affected areas and the repeal and replacement of the Prevention of Terrorism Act (PTA), although Sri Lanka continues to experience terrorist threats from the conflict-affected areas (“Sri Lanka police cracks down on violent gang with ‘LTTE link,’” 2016; “Suicide jacket, explosives found from Chavakachcheri house,” 2016; “Arrest of three raises suspicion of LTTE operatives regrouping,” 2015; “Navy finds large ammunition cache on Mullaitivu beach,” 2014), and through the LTTE's international network (“Financial support for LTTE continues: US,” 2016; Balachandran, 2016; “Lax security, corruption blamed for poor Malaysian response in Sri Lankan envoy assault case – report”, 2016). Sri Lanka fears a resurgence of terrorism without military presence in key sensitive areas and without the deterrence offered by the counterterrorism law, although Sri Lanka is committed to reducing the military presence in conflict-areas (“Return of lands pivotal for resettling IDPs: National Policy,” 2016) and amending the counterterrorism law to suit present needs (“Sri Lanka approves new anti-terrorism law draft,” 2016). The U.S. and allied North Atlantic Treaty Organisation (NATO) Western nations, are themselves implicated in grave war crimes and international human rights violations, along with other allied countries (Hagopian, 2014; Shah, 2002). Thus, Sri Lanka fears that these countries have an ulterior motive to be soft on the LTTE, that they prefer the regionally destabilising insurgent movement to return to the country for strategic reasons (Jayatilleka, 2015). Despite banning the LTTE as a terrorist organisation, these countries continue to allow LTTE networks to operate in their countries.<sup>11</sup>

Between 2006 and 2009, the United States, United Kingdom, and European Union ended almost all financial aid and trade concessions for Sri Lanka (Shapard, 2016), as a show of their condemnation of the military offensive against the LTTE (“China, Sri Lanka and politics of Indian Ocean,” 2016). There was also insufficient FDI from the U.S. and Western countries (or India or Japan) in the post-war years. Thus, the Mahinda Rajapaska government's interest in pursuing Chinese investments and funding was firstly due to circumstance and the political and economic pressure from the West, rather than by design (Sheikh, 2016). With China's investments seeming more and more strategic in Sri Lanka,

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<sup>11</sup> For example, the United Kingdom, United States, Norway and Canada, among other countries, have permitted the LTTE to open offices and establish representation in their states (Chalk, 2003; SATP, n.d.).

however, it is believed that the U.S. was in support of a new government coming into power and was willing to work with it, so as to diminish the Chinese presence in the country and punish members of the Mahinda Rajapaksa government for its perceived excesses through corruption and war crimes charges.

Today, the U.S. is explicit about its strategic interests in Sri Lanka in relation to Sri Lanka's location in the Indian Ocean, its need to counter the Chinese presence in the region, and its desire for Sri Lanka to join the U.S.-led Indo-Pacific Economic Corridor (IPEC) initiative. It is likely that China's swift securing of interests in Sri Lanka in recent years has jolted the U.S. into wanting to secure its own. In December 2015, Ambassador Thomas Shannon, Undersecretary of State for Political Affairs, during his visit to Sri Lanka, stated that the United States sees "Sri Lanka as an economic and strategic hub [in the future]," and that it likes to see Sri Lanka as a place of "human rights, democracy, freedom of navigation, sustainable development and environmental stewardship" ("Counselor of the U.S. Department of State Tom Shannon Concludes Visit to Sri Lanka," 2015). The need for "freedom of navigation" is understood to be a veiled reference to China's growing assertiveness in the South China Sea (Gamage, 2015). He stated that by engaging in multilateral organisations such as the Indian Ocean Rim Association (IORA), Sri Lanka can help regional efforts to enhance economic ties and maritime security, and that Sri Lanka is "uniquely positioned" to do so. He added that: "Your nation sits at the crossroads of Africa, South Asia, and East Asia. By the middle of this century, economists predict that Asia will account for 50 percent of the world's GDP. Over the next few decades, the supply and demand generated by the billions of people who call this region home will become increasingly central to the world economy and to global stability. We share your vision of Sri Lanka as a hub for trade and investment, and support this effort through our Indo-Pacific Economic Corridor initiative" (Balachandran, 2015).

The February 2016 joint statement from the U.S. Department of State and the Ministry of Foreign Affairs of Sri Lanka, at the conclusion of the inaugural U.S.-Sri Lanka Annual Partnership Dialogue, stated that: "The delegations discussed Sri Lanka's pivotal geo-strategic location within the Indian Ocean Region and how to strengthen cooperation on issues of regional importance bilaterally and through multilateral organisations like the Indian Ocean Rim Association. The United States encouraged Sri Lankan participation in its Indo-Pacific Economic Corridor initiative to increase economic connectivity among South Asian

countries and with Southeast Asia, which is congruent with Sri Lanka's participation in BIMSTEC and other forums... Both nations plan to strengthen maritime security cooperation efforts in the Indian Ocean Region in order to counter piracy, provide humanitarian assistance and disaster relief, and ensure free and safe navigation in the region's vital shipping lanes" (U.S. Department of State, 2016). The Indo-Pacific Economic Corridor (IPEC) initiative promotes increased regional integration of Indian Ocean countries in South Asia and Southeast Asia with increased "physical infrastructure, energy, trade integration, and people-to-people ties" (USAID, 2015), with a view to enhance security cooperation to counter China's presence, particularly in the South China Sea, as a core objective (Mishra, n.d). The U.S. and India are key stakeholders in the IPEC initiative ("US and India: Our Economic Opportunity in Tomorrow's Asia: Biswal," 2014), and other members include Bhutan, Bangladesh and Nepal.

In October 2016, Manpreet Singh Anand, U.S. Deputy Assistant Secretary for the Bureau of South and Central Asian Affairs, stated that: "The Indian Ocean is the most critical crossroads of global maritime trade as half of the world's container traffic and two-thirds of seaborne oil trade transit the Indian Ocean, while about 30 percent of global trade is handled by Indian Ocean ports...The security of the Indian Ocean therefore is inextricably linked to the stability of the global economy...Maritime security in the Indian Ocean will depend more and more on the ability of countries like India, Sri Lanka and Bangladesh to work with each other, and partners like America, to uphold international norms like freedom of navigation..." Assistant Secretary Nisha Biswal reiterated the notion of Sri Lanka joining IPEC when she visited Sri Lanka in October 2016: "We can envision a future which brings benefits to both countries, and to peace and prosperity and security across the Indian Ocean as Sri Lanka assumes a greater role as a key partner in this region. As Sri Lanka assumes its great potential as a hub and a gateway to connect to rising economic societies of South and Southeast Asia."

It could be that the U.S. is now taking heed of the U.S. Senate's bipartisan Richard Lugar–John Kerry (Lugar-Kerry) Report on Sri Lanka (2009), which stated that: "Sri Lanka is located at the nexus of crucial maritime trading routes in the Indian Ocean connecting Europe and the Middle East to China and the rest of Asia...The United States, India, and China all share an interest in deterring terrorist activity and curbing piracy that could disrupt maritime trade...While humanitarian concerns remain important, U.S. policy toward Sri Lanka cannot be dominated by a single agenda. It is not effective at delivering real reform,

and it shortchanges U.S. geostrategic interests in the region.” The report recognised that Sri Lanka was too important a country for the West to lose (Polgreen, 2009). In April 2016, speaking at the 12<sup>th</sup> United States-Sri Lanka Trade and Investment Framework Agreement (TIFA) Council Meeting in Colombo, Ambassador Samantha Power said that President Barack Obama attaches importance to the U.S.’ relationship with Sri Lanka.

The present government’s close engagement with the U.S. was visible from the beginning of its term. The government’s first foreign visit was to the United States, when Foreign Minister Mangala Samaraweera delivered a speech at the Carnegie Endowment for International Peace in Washington, D.C. on 11 February, 2015, and subsequently met with U.S. Secretary of State John Kerry on 12 February, 2015 (Ministry of Foreign Affairs Sri Lanka, 2015). President Maithripala Sirisena was elected on promises to investigate into corruption and abuse of power during Mahinda Rajapaksa’s ten-year rule, and the President promised under his ‘100-day work programme’, the formation of a vigilant anti-corruption commission “capable of finding our technical, managerial and financial corruption without any political interference” (Kirinde, 2015). However, the Presidential Commission of Inquiry to Investigate and Inquire into Serious Acts of Fraud, Corruption and Abuse of Power, State Resources and Privileges (PRECIFAC) and Financial Crimes Investigation Division (FCID) of the Sri Lanka Police Service have been carrying out investigations with assistance from the United States and United Kingdom (Sherwell, 2015; Gunadasa & Jayasekera, 2015). The United States Agency for International Development (USAID) is also assisting the ‘independent commissions’ to purportedly strengthen their accountability and transparency enshrined under the 19<sup>th</sup> Amendment (U.S. Department of State, 2016).

The U.S. has been pushing for constitutional reform to eliminate or reduce the powers of the executive presidency in Sri Lanka, such as during the time of Mahinda Rajapaksa. In March 2016, there was a USAID-assisted seminar on constitutionalism for which Sri Lankan legislators were invited. Joint Opposition leader Dinesh Gunawardena felt that this decreased public confidence in the constitution making process saying: “Why is the U.S. getting involved in constitution making in Sri Lanka? It’s a domestic process which should be undertaken by Sri Lankans” (“Dinesh hits out at USAID seminar on constitutionalism,” 2016). In April 2016, speaking at the 12<sup>th</sup> United States-Sri Lanka Trade and Investment Framework Agreement Council Meeting (TIFA), U.S. Permanent Representative to the United Nations Ambassador Samantha Power said in commendation that: “...In an era when

you just open a newspaper and see yet another world leader trying to change their constitution, expand the powers of whatever office they hold, here you have a situation where President Sirisena's government has passed an amendment to Sri Lanka's constitution that reintroduced a two-term limit and reduced the power of his own office." The U.S. Ambassador to Sri Lanka, Utul Keshap has on numerous occasions called for constitutional reform in Sri Lanka (Jabbar, 2016; Gamage, 2016; "US Ambassador says relations with Lanka are at 'Historic high,'" 2016; "U.S. officials visit Polonnaruwa to learn about planned USAID development programs in the district," 2016; "U.S. working to strengthen relationship with Sri Lanka military," 2016). In October 2015, USAID created a Sri Lanka Parliament Support Program with the stated objective of building the capacity of newly elected Members of Parliament and their professional staff in their policymaking and oversight responsibilities (U.S. Department of State, 2016). In September 2016, the Sri Lankan Parliament and the bipartisan, 20-member U.S. House Democracy Partnership of the U.S. House of Representatives signed a Collaboration Agreement to "facilitate the exchange of information on the legislative systems of each country, offer consultations on effective legislative management, and cooperate and assist each other through training programs" ("US House of Representatives to work with Sri Lanka Parliament," 2016). The U.S. House Democracy Partnership has "Partner Legislatures" with 17 countries<sup>12</sup> "to develop accountable, effective and independent legislatures" ("US assures \$40 million assistance to SL," 2016), mostly countries emerging out of conflict and/or of strategic importance to the U.S.

The U.S. is to provide US \$39.8 million in financial assistance for Fiscal Year 2017, beginning 1 October, 2016, for the "government's reforms to stimulate trade and investment, improve governance and human rights, and pursue reconciliation and accountability" ("U.S. 2017 budget requests US\$ 39.8 million to support Sri Lanka government's reforms," 2016). This marks a tenfold increase in budget allocations for Sri Lanka (Gamage, 2016). In February 2016, Secretary Kerry stated that the majority of the FY 2017 allocation is to be used to "strengthen governance, democratic reform, and the rule of law by promoting and protecting human rights, strengthening justice sector institutions, and supporting civil society organisations" ("U.S. government proposes US\$ 31 million aid to Sri Lanka for next year," 2016). The USAID Assistant Director for Asia has stated that the assistance given through his

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<sup>12</sup> Colombia, Peru, Haiti, Liberia, Kenya, Ukraine, Kosovo, Georgia, Macedonia, Pakistan, Afghanistan, Kyrgyzstan, Iraq, Lebanon, Mongolia, Timor-Leste, and Indonesia (House Democracy Partnership United States House of Representatives, n.d.)

agency will be to strengthen Sri Lanka's parliament, stating that: "On democracy and governance, this is a new era for democratic institutions. Prominent among them is the Parliament, which is poised to play a greater role in policy making and government oversight" (Gamage, 2016). The U.S. interest in, funding of and activity in constitutional reform in Sri Lanka and moves to influence the legislature of the country is viewed as outrageous and extremely intrusive. Moreover, any country's constitution has its imperfections, including the U.S. Constitution and judicial system (Jayaweera, 2016).

The U.S. has markedly increased its bilateral engagement with the Sri Lankan government as the new government took office in January 2015, with an unprecedented number of high-ranking officials visiting Sri Lanka in 2015 and 2016 ("Visits by Americans highlight support to increase SL's growth: Keshap," 2016). However, their messages have almost always been mixed: congratulating Sri Lanka on achievements in improving the human rights situation in the country with the advent of the Sirisena-Wickremesinghe government on one hand, and chastising the country on how much more needs to be achieved to meet the requirements of the UNHCR resolution on the other. Seemingly, the U.S. has to an extent softened its stance on the issue of the involvement of foreign judges in the judicial mechanism to inquire into Sri Lanka's alleged war crimes and human rights violations. Visiting officials in general have not used the term "foreign judges," but "foreign involvement" when speaking on the subject (Balachandran, 2016). For example, in July 2016, Assistant Secretary for Democracy, Human Rights and Labour, Tom Malinowski stated that, "Under the resolution, the government of Sri Lanka will determine the structure and the composition of the court," while stating that Sri Lanka has committed to some international participation in the investigation. At the same time, in a more stern Twitter message, Malinowski emphasised "U.S. support for Sri Lanka's democratisation, reconciliation and fully seeing through Geneva commitments."

At the 12<sup>th</sup> Joint U.S.-Sri Lanka Trade and Investment Framework (TIFA) Council Meeting in April 2016, the United States and Sri Lanka adopted a five-year joint action plan to boost bilateral trade and investment, with provisions for Sri Lanka such as greater use of U.S. tariff preference arrangements. At the Inter-sessional Meeting in September 2016, the U.S. and Sri Lanka committed to completing a Joint Action Plan to increase trade and investment between the two countries over the next five years. The U.S. is the largest export market for Sri Lanka, with exports amounting to US \$2.8 billion in 2015 (World Integrated Trade Solution, n.d.) – a vital source of revenue and foreign exchange for Sri Lanka. Thereby the U.S. also indirectly

creates thousands of jobs in Sri Lanka in the garments sector, garments being Sri Lanka's chief export to the U.S. Sri Lankan exports to the U.S. have also been increasing by close to 10% every year since 2011 ("U.S., Sri Lanka to finalize the implementation plan for Joint Action Plan to Increase External Trade and Investment soon," 2016). However, FDI from the U.S. has been stagnant in the past years,<sup>13</sup> and recorded US \$111 million in 2014 as well as in 2015 (U.S. Department of State, n.d.). In relation to foreign borrowings, the U.S. has lifted the U.S. legislative mandate against supporting projects in Sri Lanka at international financial institutions since the Sirisena-Wickremesinghe government assumed power (U.S. Department of State, 2016).

In May 2016, the U.S. eased the military trade restrictions imposed on Sri Lanka for over eight years since May 2008. Military-to-military contacts have also increased since the new government came to power, especially in the latter half of 2016. In July 2016, Sri Lankan Navy sailors participated in a two-day humanitarian assistance and disaster relief training conducted by the 13<sup>th</sup> Marine Expeditionary Unit (MEU) and experts from USAID. This was undertaken during the time of the docking of USS New Orleans amphibious assault ship in Colombo ("U.S. working to strengthen relationship with Sri Lanka military," 2016). In August 2016, the First Operational Level Bilateral Defence Dialogue between the U.S. Armed Forces and Sri Lankan Armed Forces was held, with the objective establishing calendars of engagement for the next three years for bilateral training and exercises. In September 2016, the U.S. Navy conducted a three-week training session in Trincomalee to train Sri Lanka Navy divers in underwater Unexploded Explosive Ordinance (UXO) recovery. Also in September, experts from the U.S. Pacific Command provided disaster response training for the Sri Lankan and Maldives militaries. In October 2016, the U.S. conducted a demining training for the Sri Lankan Navy, which included mine detection dog and underwater demining programs. The U.S. also announced in October that an additional US \$1.745 million will be given for demining activities in Sri Lanka. The Secretary of State John Kerry has sought US \$2.8 million in 2016 to improve the "professionalisation" of security forces in Bangladesh, the Maldives and Sri Lanka, focusing on building land and maritime border security and disaster response capabilities.

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<sup>13</sup> U.S. FDI into Sri Lanka was \$102 million in 2012 (Office of the United States Trade Representative, 2014); U.S. FDI into Sri Lanka was \$110 million in 2009 and increased to \$130 million in 2010 (Gamage, 2016).



US \$100 million has been given as foreign assistance to Sri Lanka by the Millennium Challenge Corporation (MCC)<sup>14</sup> of the U.S. Congress (“Discussion with MCC held on granting US\$ 100 million assistance to Sri Lanka,” 2016). The assistance provided by the MCC is long-term, and is given to countries which exhibit “a commitment to good governance, investments in people and economic freedom” (“MCC Board Selects Five Countries for MCC Partnerships,” 2015). In other notable assistance, the U.S. Embassy in Sri Lanka granted US \$300,000 to contribute to the restoration of the ancient Rajagala Buddhist Monastery in the Eastern Province and improve preservation of artefacts at the Anuradhapura Archaeological Museum. USAID has funded technical and managerial assistance to small and medium scale entrepreneurs in the north-central Polonnaruwa District, to contribute to the economic development of the region. Following the devastating floods in June 2016, U.S. Army personnel assisted in the clean-up efforts in Brandiyawatte, Kolonnawa in the Western Province. In August 2016, the U.S. Air Force’s Operation Pacific Angel helped to renovate schools, donated medical supplies and provided medical services for northern communities in Jaffna.

### Sri Lanka-Japan Relations

Sri Lanka and Japan have been friendly nations historically. Japan has been the largest foreign aid provider for Sri Lanka in the past decades, providing Sri Lanka with about half of its annual development assistance (Ministry of Foreign Affairs Sri Lanka, 2014; Ministry of Foreign Affairs of Japan, 2016). However, China surpassed Japan as Sri Lanka’s largest donor in 2014 (Bhatia, 2016). Japan is an important export market for Sri Lanka, and the value of exports to Japan was US \$302.4 million in 2015. This is true especially for Sri Lankan tea, as tea accounts for more than 20% of Sri Lanka’s exports to Japan (Ministry of Foreign Affairs Sri Lanka, 2014; Ministry of Foreign Affairs of Japan, 2016). However, Japan has not been a significant source of FDI for Sri Lanka in the past decades up to 2015. For example, Japanese FDI into Sri Lanka was only approximately US \$10.2 million in 2014 (Ministry of Foreign Affairs of Japan, 2016). However, certain Japanese companies have

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<sup>14</sup> The MCC’s Board of Directors is chaired by the U.S. Secretary of State John Kerry and includes as members the Secretary to the Treasury, the U.S. Trade Representative, the USAID Administrator, CEO of MCC and four private sector representatives (Millennium Challenge Corporation, 2015).

made substantial investments in Sri Lanka since the 1970s (Ministry of Foreign Affairs Sri Lanka, 2014).

While Japan is a U.S. ally, it is a non-NATO ally, and as such Japan's foreign policy towards Sri Lanka has not been as intrusive or abrasive. For example, Japanese Ambassador to Sri Lanka, Kenichi Suganuma stated at a media conference in Colombo on 13 October, 2015 that: "Some people are of the opinion that it is necessary to seek the truth in the aftermath of an armed conflict while others say one must look towards the future without solely engaging in finding out what happened in the past." The Ambassador said that Japan would assist Sri Lanka in its national reconciliation efforts regardless of which kind of mechanism Sri Lanka decides to adopt ("Japan to help Lankan reconciliation efforts," 2015).

However, the Chinese predominance in Sri Lanka and large-scale investments in the strategic sector of ports in the recent past, is a source of concern for strategic rival Japan, who wishes to ensure that the Indian Ocean maritime routes are clear and accessible for its own future trade and growth. Hence Japanese engagements with Sri Lanka have seen a manifold increase with the change of government in 2015. In October 2015, during Sri Lankan Prime Minister Ranil Wickremesinghe's visit to Japan, Prime Minister Wickremesinghe and Prime Minister Shinzo Abe agreed to establish a Joint Committee to work towards establishing a Joint Declaration on Comprehensive Partnership between Japan and Sri Lanka, for cooperation in such areas as economic development, maritime security, national reconciliation and peace-building ("PM, Abe decide on a comprehensive partnership," 2015). Japan's interest in countering China's maritime presence in Sri Lanka became clear with the inaugural Sri Lanka-Japan Dialogue on Maritime Security, Safety and Oceanic Issues in January 2016 in Colombo to reinforce maritime ties between the two countries. During the discussions, Ambassador Kenichi Suganuma, stated, in hidden reference to Japan's disputes vis-à-vis China in the South China Sea, that securing freedom of navigation and safety of sea routes is a major concern for Japan and that Japan wishes to see the establishment of an open and stable ocean (Mushtaq, 2016).

Following President Sirisena's participation in the Group of Seven (G7) Outreach Meeting on 28 May, 2016, for which Sri Lanka was invited for the first time, bilateral discussions were held between the Sri Lankan President and Japanese Prime Minister Abe. Their joint statement noted that: "Both leaders recognised the importance of port development in Sri Lanka, as a key hub nation in the Indian Ocean given the rising demand and the rapid growth

of the region. President Sirisena expressed his appreciation for the Japanese assistance provided thus far in this respect. Prime Minister Abe stated that Japan would actively continue its cooperation on the development of the Colombo Port and its vicinity under the public and private sector cooperation. Prime Minister Abe also expressed his intention to send survey missions to study the needs and the logistics for hub development of the north port of Colombo and its surrounding areas, as well as the development of the port of Trincomalee” (“Japan extends Yen 38 billion ODA assistance to Lanka,” 2016).

The joint statement refers to the East Container Terminal (ECT) project of the Colombo Port, for which the Asian Development Bank (ADB), whose largest donor is Japan (followed by the United States, Australia, Canada, Germany, the United Kingdom, and France in descending order), came into a public-private partnership (PPP) through a transaction advisory services agreement with the Sri Lanka Ports Authority (SLPA) on 23 February, 2016 (“ADB to Help Sri Lanka Expand Colombo Port Operations Using PPP,” 2016). The partnership is likely to span 35 years. The SLPA has invested US \$80 million in the construction of the 400-metre berth at the terminal, and ADB has provided a US \$300 million loan in 2008 to support the construction of the breakwater of the Colombo Port (“ADB to Help Sri Lanka Expand Colombo Port Operations Using PPP,” 2016). On 27 June, 2016, the ADB signed a co-advisory services agreement with Japan’s Sumitomo Mitsui Banking Corporation (SMBC) for the \$500 million ECT project (ADB, 2016).

A National Port Master Plan (a master plan for Sri Lanka’s ports sector) with the goal of making Sri Lanka the “most competitive and preferred ports and shipping destination,” has been developed by the ADB with US \$1.5 million funding from the Japan Fund for Poverty Reduction and \$400,000 from the Sri Lankan government (ADB, n.d.). The ADB is to provide technical assistance for the project through the contracting of international consulting firms. The National Port Master Plan was finalised in September 2016, and includes recommendations for the restructuring of the Sri Lanka Ports Authority (SLPA). The executing agency for this project is the SLPA.

In June 2016, the Japanese government granted approximately US \$16.3 million (Yen 1.83 billion) to Sri Lanka to establish a Maritime Safety Capability Improvement project, aimed at improving the maritime safety capability (safe navigation of vessels, anti-piracy, transnational crime countermeasures, and prevention of destruction of the marine environment and resources) of the Sri Lanka Coast Guard (SLCG). The project includes the

procurement of two 30m-class patrol vessels from Japan, as well as familiarisation training from Japan. Frequent ship visits by the Japanese Maritime Self-Defence Force (JMSDF) and the Japanese Coast Guard (JCG) ships to Sri Lanka is another aspect of Japan's recent efforts to enhance maritime ties between the two nations.

Japan has financed other infrastructure projects in Sri Lanka in 2016. The Japan International Cooperation Agency (JICA) has extended a US\$ 800 million loan to build a new airport terminal (with a capacity of handling 20 million people) at the Colombo Airport. The construction work on the terminal began in July 2016 and is expected to be completed in 2018 ("New Airport Terminal for BIA," 2016). In July 2016, Japan agreed to fund a Light Rail Transit (LRT) system for Sri Lanka's Western Province, also through JICA. In October 2015, JICA granted Sri Lanka a loan of approximately US \$279 million (Yen 35 billion) to construct a new bridge over the Kelani River in the Western Province to ease traffic congestion. In October 2016, the Urban Development Authority (UDA) of Sri Lanka and JICA entered into a technical cooperation agreement to develop an urban development plan for the historical Kandy city. In October 2016, Japan and the World Bank Group committed to co-financing an approximately US \$326.5 million project to support the government's economic and social development efforts to: "(1) i) reduce obstacles to private sector competitiveness, ii) establish transparent and well managed public institutions, and iii) improve fiscal sustainability; and (2) finance the Anuradhapura North Water Supply Project (Phase 2) ("Japan provides Rs. 48 b for economic and social development," 2016).

In May 2016, following bilateral discussions between President Sirisena and Prime Minister Abe, the Japanese Prime Minister offered an approximately US \$352.5 million (Yen 38 million) Official Development Assistance (ODA) Loan for various developmental projects across Sri Lanka. Japanese ODA Loans have very low interest rates between 0.3% and 0.15% with long repayment periods up to 40 years ("ODA Loans," n.d.). In other financial aid, in April 2016, the Japanese government granted approximately US \$15.5 million to a construct a research and training complex for the Faculty of Agriculture at the University of Jaffna in the Northern Province to improve its research facilities. In September 2016, the Japanese government granted US \$2.2 million (Yen 230 million) to the United Nations World Food Programme (WFP) to provide school meals to 160,000 food-insecure school children in the Northern Province. To increase cultural understanding between the two countries, in September 2016, the Japanese government granted approximately US \$488,000 (Yen 52.6

million) worth of Japanese television programs to Sri Lanka's government-owned Rupavahini Corporation television channel. The programs are to be dubbed in Sinhalese and Tamil to reach wide Sri Lankan audiences.

The Japanese-headed ADB is to provide US \$2 billion in loans and equity in 2016-2018, compared to the \$1.5 billion given in the preceding three years (ADB, 2016). The 2016-2018 projects will be to support infrastructure and power generation projects, such as expressways, railway upgrades, wind power generation, among other projects continued from before. The 2015 projects have included port development, road development, support for small and medium scale businesses, irrigation projects, projects to enhance electricity supply, and drinking water projects, among others.

## **Conclusion**

Given the country's small size and economic challenges and stakes, it is in Sri Lanka's interest to maintain and cultivate its relations with global powers such as the United States and China, and regional giants like India and Japan. The principal interests of these powers in Sri Lanka are presently the same, namely securing maritime access and control in the island due to its nearness to major global Indian Ocean Sea Lines of Communication (SLOCs). India also seeks a closer relationship on account of the proximity of the two countries. The rivalry between these powers – between the United States and China, Japan and China, and India and China – behoves Sri Lanka to balance 'how much' is granted to each power, so that a security dilemma does not develop, as it has presently. China's actions taken in Sri Lanka during the Rajapaksa years to heighten its security, has resulted in other powers attempting take similar measures, increasing tensions between them. Although it can also be said that U.S. hegemony in the international sphere since the end of the Cold War, has made rising China feel insecure, leading it to secure its vital interests at a rapid rate.

While the interests of external powers in Sri Lanka are similar and the security dilemma has caused all four powers to increase military-to-military contacts with Sri Lanka, the chief strategies each has adopted to gain influence over Sri Lanka are very different to each other. China's strategy in the country is plainly visible; its goal is to capture a controlling stake over strategic projects through large-scale FDI. China promises to bring in billions more in FDI,

more developmental aid as well as enhance its trade relationship with Sri Lanka in the future. China's interests converge with Sri Lanka's to an extent, as Sri Lanka views the Colombo International Financial City (CIFC) project being built under China's Belt and Road initiative to be Sri Lanka's best hope in achieving its developmental ambitions of becoming a major regional shipping and financial hub.

Sri Lanka has an important trade relationship with India; India has vowed to greatly increase FDI into Sri Lanka in the coming years, including into a northern port; India has made earnest efforts to resolve the longstanding issue of Indian fishermen bottom-trawling in the Palk Bay, which it possibly views as a confidence-building exercise with Sri Lanka; and India is distributing developmental assistance in a more equitable manner on the island of late. However, India's strategy of promoting regional integration through the ETCA, IPEC initiative, a tunnel-sea bridge or otherwise, may not be economically beneficial to Sri Lanka at this juncture. An aggressive push from India in this direction at present may sour relations between India and the Sri Lankan people.

Japan continues to give large amounts of development loans to Sri Lanka, which contributes to the development of Sri Lanka, but this is also adding to the country's foreign debt burden. Japan has taken on a much more assertive role in securing its maritime interests in Sri Lanka since the change of government, especially by establishing a controlling stake over the East Container Terminal (ECT) of the Colombo Port and in attempting to shape the future of the burgeoning strategic ports sector by developing a National Plan through the ADB in collaboration with the government. The U.S., as an ally of Japan and as the second largest donor of ADB, may be viewing these achievements as its own too.

The United States has in general continued to pursue a politically intrusive strategy in Sri Lanka, where for example, constitutional reform and influence over the legislature is sought to reduce the powers of or remove the executive presidency, so that the likes of another Mahinda Rajapaksa, or a strong leader, will not easily be able to shift the geopolitical dynamics of the region or make swift decisions. The U.S. also continues to engage with the anti-Sri Lanka pro-LTTE Tamil diaspora ("U.S. Assistant Secretary Nisha Biswal holds talks with Tamil diaspora," 2016), and has collaborated efforts in the past in relation to the UNHCR resolutions against Sri Lanka. Thus, the U.S. continues to follow a 'stick' approach towards Sri Lanka. Nonetheless, Sri Lanka has a vital trade relationship with the U.S.; the U.S. brings in a moderate amount of FDI; and it has increased aid and trade concessions since

the change of government. Some commentators believe that Donald Trump as President of the United States may foster more cordial relations between the United States and Sri Lanka, as he is likely to be more sensitive to the terrorist threat posed by the LTTE as well as all the suffering it caused Sri Lanka over the past three decades (Gamage, 2016; SATP, n.d.).

When it comes to its foreign policy, Sri Lanka is advised not to favour one power over the other, as that is likely to have a destabilising effect on Sri Lanka as well as the region, hindering the development of both. Historically, Sri Lanka has learned this lesson several times over, due to leaders who have chosen not to follow a nonaligned policy. The foreign policy of the incumbent Sirisena-Wickremesinghe government may be deemed successful at present in conducting a nonaligned foreign policy (as is declared), due to the government's increased and extensive engagements with all four powers seeking influence over Sri Lanka, as detailed earlier. The government was seen to err initially as it sought to foster relations with the United States, India and Japan, at the expense of China, which hurt relations with China, the emerging global power. However, the government presently seeks to mend ties with China, and seeks to cultivate friendly relations with all. At the same time, while it is good to share and compromise with foreign powers so as avoid confrontation and volatility and encourage collaboration and economic growth, the Sri Lankan government should also not find itself in a situation where it is giving 'too much' to all. The sovereignty of the country should not be lost in an attempt to divide itself up equally among foreign powers. While the present government may be following a balanced foreign policy by seeking to give all that it can to different foreign powers, it is too early to determine whether this is a winning foreign policy.

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