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OBOR and Sri Lanka: Progress, Challenges and Options

*** Zeng Xianglai**

* **Mr. Zeng Xianglai** is Program Director at Economy and Non-traditional Security Centre, Hainan Institute for World Watch (HNIWW), China.

OBOR and Sri Lanka:

Progress, Challenges and Options

Abstract

The Belt and Road Initiative (commonly known as OBOR) as a grand development blueprint proposed and promoted by China is an ideal mechanism and platform to mobilize resources for China and participant countries to synergize development strategies and stimulate the potentials of bilateral and regional cooperation and common development.

Sri Lanka is specially blessed with its unique advantage of geographical location at the crossroad of India Ocean Region (IOR), which makes it regarded as an important node of OBOR. Even the regime changes of Sri Lanka in 2015 had an impact on some major collaborative projects, the momentum and prospect of bilateral cooperation within the framework of OBOR are still bright, mainly because the strategic interests of the two countries matches well and surpasses the divergence and disturbance.

Considering OBOR is not only about increasing physical connectivity with the countries along the route, but also cultivating the local markets and cultural exchanges. The two sides should envisage the status quo, overcome the challenges and seek more options to further cooperation together. On the one hand, port and shipping industry and crucial infrastructure projects should play the fundamental role in the bilateral cooperation; on the other, to enrich the contents and vitality of the cooperation, the two sides should jointly exploit new sources of growth in cooperation, such as mobile payment, cultural industry and climate change.

Keywords: OBOR, China, Sri Lanka, Cooperation, Progress, Challenges, Options

1.Introduction

In the mid of May 2017, the Belt and Road Forum (BRF) was successfully held in Beijing as an effort of China to make a stocktaking, gather momentum and further promote collaboration with the participant countries of OBOR. Sri Lanka had sent a high-profile delegation headed by the Prime Minister Ranil Wickramasinghe to attend and sign a package of bilateral cooperation agreements on economy, technology, investment, and other sectors, which was generally regarded as a political commitment from Sri Lanka to act as a positive and constructive partner of the OBOR.

In the meantime, this forum also aroused much attention and discussion within Sri Lankan society. The optimists deemed that Sri Lanka could be a beneficiary of Chinese fast-growing economy and spilling over industrial capacity. While the pessimists lamented that Sri Lanka is debt trapped, paying the past bills and some major projects have become “white elephants”.

This paper intends to make an overall elaboration of OBOR in section 2, analyze why OBOR in Sri Lanka matters both for China and Sri Lanka in section 3. To clarify relative misperceptions, the concrete progress and major challenges of OBOR in Sri Lanka have been respectively introduced and discussed in section 4 and 5 while the constructive options to overcome the challenges and further promote China-Sri Lanka OBOR cooperation as policy recommendations from both macro and micro perspectives have been raised in section 6. Finally, the concluding remarks have been made.

2. An overview of OBOR

A document called “Visions and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road”, issued by the National Development and Reform Commission (NDRC) on March 28, 2015, outlined areas of co-operation and co-operation mechanisms with regard to the OBOR Initiative.

According to the conceptual framework given in the document, South Asia and the IOR figure prominently as two routes included respectively in the Silk Road Economic Belt and the 21st Century Maritime Silk Road are related to this area.

The Silk Road Economic Belt focuses on: (1) linking China to Europe through Central Asia and Russia; (2) connecting China with the Middle East through Central Asia; and (3) bringing together China and Southeast Asia, South Asia and the Indian Ocean. The 21st Century Maritime Silk Road, meanwhile, focuses on using Chinese coastal ports to: (4) link China with Europe through the South China Sea and Indian Ocean; and (5) connect China with the South Pacific Ocean through the South China Sea. Focusing on the above five routes, the Belt and Road will take advantage of international transport routes as well as core cities and key ports to further strengthen collaboration and build six international economic co-operation corridors. These have been identified as the New Eurasia Land Bridge, China-Mongolia-Russia, China-Central Asia-West Asia, China-Indochina Peninsula, China-Pakistan, and Bangladesh-China-India-Myanmar¹

The characteristics of this magnificent Initiative may be briefly summarized as: (1) Jointly build one community of shared interests, development, responsibility and destiny. This community will be different from the European Union which is characterized by a transfer of sovereignty; instead, it is based on respect for sovereignty of countries, upholds the principles of openness, equality and a step-by-step approach; (2) The Initiative should be jointly built through consultation to meet the interests of all. It was initiated by China, but will not be monopolized by China. The relationship of China and concerned countries is not that between donor and recipient; (3) Promoting policy coordination, infrastructure connectivity, unimpeded trade, financial integration and people-to-people bonds are the five major

¹ China Daily. “Vision and proposed actions outlined on jointly building Silk Road Economic Belt and 21st-Century Maritime Silk Road” , 30 March 2015 , http://language.chinadaily.com.cn/2015-03/30/content_19950951.htm (accessed on 4th July 2017)

goals of OBOR; (4) Infrastructure connectivity, industrialization, exploration of energy sources, economic and trade cooperation, financial cooperation, cultural exchange, eco-environment protection and maritime cooperation are the eight priority areas for implementing the Initiative;² (5) The funding for the implementation of OBOR is to be modified through the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank initiative between BRICS nations is also expected to play an active role in this regard. What's more, the Silk Road Fund, a specific state-owned investment fund of the Chinese government as well as Chinese policy banks like China Development Bank (CDB) and Exim Bank of China will also provide substantial financial supports to foster OBOR.

2.1 The external and internal incentives for China to propose and promote OBOR

According to my observation of local media reports and discussion with local scholars in South Asian countries, there are skepticism to some extent about the motive of China, as a developing country, to keenly promote such a large scale regional cooperation project and to mobilize so many diplomatic and financial resources. Some even doubt that OBOR is Marshall Plan in guise and worry that China is trying to establish new economic hegemony.

To clarify relative misperception, an explanation about the background and incentives for China to propose and promote OBOR is necessary.

The idea of the OBOR is not something out of the blue. After the Cold War, Asian regional cooperation and inter-regional cooperation began to take off, forging new mechanisms such as the Asia-Pacific Economic Cooperation, East Asia Cooperation and Shanghai Cooperation Organization. These mechanisms have faithfully played their respective roles but also bear the shortcomings of compartmentalization and fragmentation. OBOR as a large-scale and in-depth cooperation platform will connect all the kinds of regional cooperation and magnify their overall efficiency.

The general trend of globalization also provides the tide for OBOR. Thanks to the rapid progress of modern science and technology, the communications between the countries all over the world have become more convenient than ever before. More and more countries are putting emphasis on the economic development and adhere to open trade and foreign policies. China, as a positive participant and beneficiary of globalization, naturally has strong motive to safeguard and further promote globalization.

From domestic perspective, dating back to the initiation of the reform and opening-up policy, China has been taking a pragmatic and cautious development attitude known as feeling the stones while crossing the river. OBOR is not only the revival and upgrade of the ancient silk road, but also the inheritance and upgrade of China's reform and opening-up policy. Based on many years of practice, China's reform and opening-up policy surpassed the stage of passive opening-up and since 2002 China has once experienced an upgradation of probing positive opening-up, also known as going-out policy (Zou Chuqu), which was embodied in encouraging Chinese enterprises to invest in foreign countries. OBOR is a further but more

² Liu Jinsong, "Belt and Road, Sharing Opportunities", China-India Dialogue, vol.8, no.4, May-June 2017.

significant step for China to plan current situation as a whole, map out a trans-regional development blueprint and provide the largest international public products of its own.

OBOR is also a key to open the Chinese landlocked inland provinces and solve the problem of unbalanced regional development. Chinese eastern coastal provinces, like Guangdong and Zhejiang have been enjoying most of the dividend of reform and opening-up policy due to their geographical advantages. However, the development of many inland provinces suffered from the inconvenient transportation and communication conditions, which caused various economic and social problems. As efforts to solve these, Chinese central government successively carried out supportive policies and strategies, such as of Development of the West Regions (Xibu Da Kaifa), Rise of Central China (Zhongbu Jueqi) and Rejuvenation of Northeastern Old Industry Base (Zhen Xing Dongbei Lao Gongye Jidi). OBOR would open a new dimension for the inland provinces by encouraging and enabling them to strength the cooperation with more alternative countries and with more alternative routes by enhancing comprehensive connections based on sound physical connectivity. In the meanwhile, the conductive effect and integrated effect should not be underestimated.

3. Why OBOR in Sri Lanka matters for both China and Sri Lanka?

The historical friendly exchanges between China and Sri Lanka can be dated back to more than one thousand year ago, featured with the stories of a Buddhist monk named Fa Xian in China's Jin Dynasty, a fugitive Ceylon prince to Ming Dynasty and the visits to Ceylon by Zheng He's fleet. The contemporary bilateral relations featured with the *Rice and Rubber Agreement* in 1952, even before the two countries established formal diplomatic relations when China was boycotted by the western countries. Since setting up official diplomatic relations in 1957, China and Sri Lanka have been keeping friendly and harmonious relations for more than 60 years.

The bilateral relation of China and Sri Lanka experienced a short-term concussion after the Sri Lankan domestic regime change in 2015. Several China invested major projects in Sri Lanka were suspended and under censorship. The economic losses induced directly and indirectly were huge. It was once looked as an ordeal of the friendly relationship between the two countries, which has been cultivated for decades. However, the bilateral relations have been taking a steady course of recovery in the next year due to the deep-rooted reciprocal demands and unremitting endeavors from both sides.

3.1 Both sides have strong incentives to leverage the geographical advantage of Sri Lanka

Around 90% of foreign trade freight volume, 95% of import crude oil and 99% of import iron ore of China must be realized by sea. Zooming down to the IOR, the figures are respectively 40% of foreign trade volume, 30% of imported natural gas and 82% of imported crude oil.

According to the "Visions and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road", two of the five routes of OBOR are related with South Asia and IOR. OBOR will take advantage of international transport routes as well as core cities and key ports to further strengthen collaboration.

In this regard, Sri Lanka enjoys special geographical advantages, as it rests in the center of IOR, connects the Asia and Africa continents on the sea lanes and has a radiation scope of the South Asian sub-continent, which makes it an ideal place for transshipment and replenishment in IOR.

Sri Lanka has long aspired to become an Asian trading hub like Singapore and sees Singapore's model for development as having special significance for Sri Lanka. The successive political leaders of Sri Lanka have repeatedly announced the ambition to forge Sri Lanka as the transportation, trade and economic hub of IOR. Such a development goal is in line with the OBOR in many aspects.

3.2 Both sides have strong demand for economic globalization and boosting export-driven economy

The world economy is undergoing profound changes, presenting both opportunities and challenges. A noticeable tendency is protectionism and de-globalization. As economies enjoying the benefit of globalization and largely relies on exports, both China and Sri Lanka have strong demand to defend and promote globalization and free trade. While OBOR initiative is a major balancing power of the protectionism and de-globalization as its aim is to promote and strengthen the partnerships among the countries along the Belt and Road by increasing connectivity and opening new dimensions and tiers of cooperation.

The political leaders of both countries have explicitly expressed the willingness and determination. For example, in his first speech to the World Economic Forum at Davos 2017, Chinese President Xi Jinping stressed "It is true that economic globalization has created new problems. But this is no justification to write off economic globalization altogether. Rather we should adapt to and guide globalization, cushion its negative impact, and deliver its benefits to all countries and all nations."³

Similarly, when delivering the keynote speech at the annual convocation of the Bandaranaike International Diplomatic Training Institute, the Prime Minister Wickremesinghe said Sri Lanka must have two aims: increase trade within Asia and raise living standards of the people so that Asia becomes a bigger consumer market with a larger middle class. Sri Lanka has a duty to press for closer economic cooperation within Asia. While in the elaboration of the economic plan for the next 5 years to the parliament in 2016, the Prime Minister remarked that "we need to sustain a higher rate of growth for the plans to succeed, one that will result in higher exports and a greater domestic demand."⁴

3.3 There's immense potential for both sides to strengthen industrial capacity cooperation

Regarding the investment environment, Sri Lanka enjoys comparative advantages with other South Asian countries, such as better transportation infrastructure, higher literacy, sound legal system and friendly business environment.

However, the shortcomings of Sri Lanka are also conspicuous, esp. the weak

³ Jamil Anderlini and Wang Feng in Davos and Tom Mitchell in Beijing. "Xi Jinping delivers robust defense of globalization at Davos", Financial Times. 17th Jan. 2017.

<https://www.ft.com/content/67ec2ec0-dca2-11e6-9d7c-be108f1c1dce> (accessed on 7th August 2017)

⁴ Colombo page. "Sri Lanka PM outlines economic plan for next five years", 27th Oct. 2016,

http://www.colombopage.com/archive_16B/Oct27_1477581556CH.php (accessed on 4th July 2017)

manufacturing capability, low additional value of products, which constrains the industrialization of the country and the creation of more employment.

China has accumulated relatively strong industrial capacity and extensive development experience. As the Chinese central government is intensifying the cut overcapacity policies, many Chinese enterprises have strong incentive to select an ideal country to transfer their spillover capacity.

Moreover, Sri Lanka is expected to enjoy Generalized System of Preference (GSP)of Europe, plus its advantageous shipping location, which will make it a more attractive destination for Chinese manufacturing enterprises to invest.

Therefore, the strategic economic demands of both countries are highly complementary and there's immense potential for both sides to strengthen industrial capacity cooperation.

4. The progress of OBOR in Sri Lanka

China is one of the largest infrastructure construction partners and main sources of foreign investments in Sri Lanka. The China-Sri Lanka economic and trade cooperation has created more than one hundred thousand job opportunities for local people, trained tens of thousands of technicians and managers and promoted the rapid development of various sectors. Up to 2016, Chinese companies in Sri Lanka have completed the construction of infrastructure projects amounting to over USD 15.5 billion and made direct investments of over USD 2 billion, contributing to Sri Lanka's economic growth and social development.

4.1 Financial and other institutional cooperation

Sri Lanka is the one of the interested founding member states of AIIB in 2015. In April 2016, a joint team of AIIB and CDB visited Sri Lanka. The latter declared that it was planning to set up an office in the country, which would be the first branch of CDB in South Asia. In January 2017, during a meeting with AIIB chief on the sidelines of World Economic Forum at Davos , Sri Lanka Prime minister got clear promise to get loans from AIIB. It's very likely that the interest rate of these loans would be preferable for Sri Lanka comparing with common commercial ones.

AIIB is also playing a driving and leveraging role in the overseas investments to Sri Lanka. According to a report of Xinhua news agency in 2016, Asian Development Bank is looking to team up with AIIB to co-finance projects in Sri Lanka.

In 2016, CDB and the Central Bank of Sri Lanka strived to finalize a \$200 million currency swap to boost foreign exchange reserves and help avert a balance of payments crisis.⁵ What's more, during the BRF, Chinese President Xi Jinping announced that China would offer CNY400 million (Rs.8.8 billion) as aid given gratis to Sri Lanka in 2017 and CNY 2 billion (Rs.44 billion) for the period 2018-2020. In the meanwhile, China and Sri Lanka signed four important cooperation agreements including the China-Sri Lanka Economic and Technical Cooperation Agreement, the Outline of the Medium and Long-Term Development Plan for Investment, Economic and Technological Cooperation, the Framework Agreement for Promoting Investment

⁵ Lanka News Web. 'Central Bank finalizes US\$200 million currency swap with China'. 1st Dec. 2016. <http://lankanewsweb.net/news/item/4788-central-bank-finalises-us-200-million-currency-swap-with-china>. (accessed on 8 August 2017).

and Economic Cooperation, the Financing Cooperation Agreement. These agreements cover future key cooperation projects and areas.

4.2 Major Projects: white elephant?

4.2.1 The progress of Colombo Port City and Hambantota port projects

The Colombo Port City Project (CPCP)

Invested and developed by the China Communications Construction Company Limited (CCCC), Colombo Port City is the largest PPP project between China and Sri Lanka in the framework of OBOR. It dovetailed with Sri Lanka's Western Megapolis development strategy.

The CPCP commenced its operations in 2014 and was suspended in 2015. It got the clearance of environment evaluation from the Sri Lankan government and resumed in March 2016 after a suspension of almost one year and is expected to be completed by 2041.

In August 2016, the CPCP was again added in the Megapolis plan and the government, which planned an International Finance Center in Colombo with its own laws, decided to sign a new tripartite agreement which resulted in the project becoming the Colombo International Finance City (CIFC). China has agreed with and accepted the adjustment from Sri Lankan side.

With investment of USD 1.4 billion, Phase I project has land reclamation of 269 hectares (currently over 40% of the land reclamation has been completed), out of which there will be 178-hectare developable land for commercial developments. The construction of Colombo Port City will not only contribute to Sri Lankan socio-economic development, but also play an exemplary role in attracting foreign investment, and furthermore, it will attract international high-end professionals and introduce world's advanced technology so as to promote the competitiveness of local enterprises.

The construction of the CPCP will also create job opportunities for the locals, with a total of 83,000 jobs expected from implementation to completion of the project.

Hambantota Port Project

The Port of Hambantota is located on the Southern coast of Sri Lanka occupying a prime location within 10 nautical miles to the main shipping route from Asia to Europe and is also in a strategic position along the “Silk Road Economic Belt and the 21st Century Maritime Silk Road”. Hambantota Port is a comprehensive deep-water port, the Hambantota Port project is a project to develop a major industrial and service port with an attached industrial zone.⁶

The construction of Hambantota port began in January 2008, while the Phase I port started operation in 2012 and can provide bunkering, ship repair, ship building,

⁶ Raju Mandia. "CMPort will invest up to USD 1.1 Billion into Hambantota Port", 26th July 2017, globalFDI. <http://globalfdi.net/articles/0717/cmport-will-invest-up-to-usd-11-billion-into-hambantota-port.html>(access ed on 26th Sept. 2017).

and crew change facilities. The port of Hambantota will serve ships travelling along the east-west shipping route which passes six to ten nautical miles south of Hambantota. Later phases will raise capacity of the port up to 20 million TEUs per year. When completed, it is claimed that the port will be the biggest port constructed on land to date in the 21st century.

In July 2017, on the approval of the cabinet, Sri Lanka Port Authority signed a concessional agreement with China Merchants Ports Holdings Company (CMPort). Pursuant to the agreement, CMPort will invest an amount of up to USD1.12bn into Hambantota Port and marine-related activities, and the two parties set up two joint ventures-Hambantota International Port Group Limited (HIPG) and Hambantota International Port Services Company Limited (HIPS) in relation to the development, management and operation of the Hambantota Port.

It's noteworthy that equity ratio in HIPS of Sri Lanka government and CMPort is 50.7% and 49.3%. HIPS will develop, operate and manage common user facilities, including security services in and around the port

With the development and operation of Port of Colombo, the addition of the Hambantota Port will provide China and Sri Lanka a platform to materialize synergies between the two major ports, unlocking the county's potential to be a global maritime center. And with the development of the 15,000 acres nearby industrial zone underway, more and more Chinese enterprises will be attracted, which will stimulate the vitality of the port and create tens and thousands of jobs for the local people.

4.2.2 Debt trap and white elephant?

The debt trap conspiracy and the white elephant metaphor are kind of interlinked. The obscure logic behind is that the former Sri Lankan government borrowed billions of loans from China at high interest rate while the projects are not profitable, which directly resulted in the debt crisis of the current government. The popularly raised argument is since operation in 2012, there have been few flights and passengers visit Mattala airport and the government lost around 1.9 million US dollars in operating the airport in 2016.

We should recognize the fact that as Sri Lanka was upgraded to a lower middle-income country in 2009, most of its concessionary debt was cut off and this scenario forced the government to obtain commercial debt. As a result, over the last decade the composition of the country's external debt has changed dramatically, with a shift toward costlier, non-concessional debt from previously available concessionary debt. Accordingly, in 2006, only 6% of external debt was commercial debt, but by 2012 it exceeded 50% of the external debt. This has resulted in a drastic surge in interest paid on external debt, leaving the country rather vulnerable to an economic crisis.⁷

By the end of 2016, Sri Lanka's external debt stock soared to USD25.3 billion, which amounts to 34 % of the country's gross domestic product. Out of this massive debt stock, about 13%, which amounts to \$3.3 billion, is owed to China. The cause of debt crisis is comprehensive and complicated, including poor debt management and market risks. China has been strictly adhering to the market regulations and rules of Sri Lanka on the specific projects initiated by the latter.

⁷ B. Skanthakumar. "New Loans for Old": Sri Lanka's Spiralling External Debt". 30th August 2012. CADTM. http://www.cadtm.org/spip.php?page=imprimer&id_article=8294 (accessed on 9 August 2017).

What's more, many major infrastructure projects, with characteristics of high initial investment, lengthy period of cost-recovering, will support and contribute to the national economy in the long run, but don't get effect instantly. The performance of the projects also depends on the supporting auxiliary projects and good management.

Some Sri Lankan analysts, like Tudor Wijenayake has already recognized this and observed that the development of the Hambantota port at a massive cost highlighted the absence of clear policy on port development.⁸ Therefore, it's too early to tag the projects as white elephant and it doesn't make any sense to make China the scapegoat.

4.3 Bilateral FTA in sight

By 2015, China had become the second largest import partner of Sri Lanka, while China's exports to Sri Lanka were valued at USD 3727 million in 2015, accounting for 20% of total imports to Sri Lanka – only marginally below India, which accounted for 23% of imports. Compared to its significance as an import partner, China's importance as an export destination for Sri Lanka is remarkably low. Specifically, Sri Lanka's exports to China in 2014 were valued at only USD 173.5 million, accounting for just 1.5 % of Sri Lanka's total exports that year.⁹

The trade deficit has accounted for 26.4 % of Sri Lanka's total trade deficit in 2014. However, under liberalized and globalized economic conditions, the expanding deficit should not be regarded as a major issue. Specifically, major imported products from China such as knitted and crocheted fabric of artificial filament, woven fabric of synthetic staple fibers, and dyed cotton are vital raw materials needed for the production of major local exports, particularly garments and textiles, which account for 43% of Sri Lanka's total export earnings in 2015.

In addition, imports from China include electronic products and consumer durables such as air conditioners, cameras, televisions, washing machines and mobile phones, for which Sri Lanka does not have a comparative advantage in production.

It's very likely that China and Sri Lanka will be able to finalize a free trade agreement (FTA) later in 2017. The two Asian economies have been negotiating a trade deal since 2014. According to a joint feasibility study issued in 2014, the two sides aim to address areas such as tariffs and non-tariff measures, rules of origin, customs procedures, and sanitary and phytosanitary measures and technical barriers to trade. They will also cover various aspects of services trade, along with addressing issues related to investment, economic and technological cooperation, including e-commerce as well as small and medium-sized enterprises.

4.4 People-to-people bonds

One of the core spirits of OBOR are enhancing people to people bonds. With the

⁸ Tudor Wijenayake. "Will Colombo East terminal be another white elephant?". 5th April 2016. Daily FT. <http://www.ft.lk/article/534884/Will-Colombo-East-terminal-be-another-white-elephant>. (accessed on 9 August 2017).

⁹ N.R. Ravindra Deyshappriya. "Sri Lanka-China trade relations: Time to focus on unexplored Chinese markets", 30th May 2017. <http://dailynews.lk/2017/05/30/business/117339/sri-lanka-china-trade-relations-time-focus-unexplored-chinese-markets> (accessed on 17th August 2017)

encouragement and support from the Chinese government, China has taken active measures such as granting more than 1200 scholarships, training programs and internships to Sri Lanka every year since 2015. ¹⁰Based on that a list of Chinese key universities are encouraged to extend cooperation with local universities in Sri Lanka, which will make it easier for Sri Lankan young generation to study and travel in China and contribute to the culture exchanges between both countries.

China and Sri Lanka both have long histories and bright civilizations. Tourists from both countries are natural civil envoys. According to the latest report released by the United Nations World Tourism Organization, China was once again named the number one market in the world with the highest number of outbound tourists in 2016. According to the statistics of Sri Lanka tourism bureau in 2005, there were less than 5000 Chinese tourists visited Sri Lanka. Nevertheless, the figure soared to 270,000 in 2016. Currently, China has become the second biggest source of tourists to Sri Lanka, next to India.

5. The Challenges of OBOR in Sri Lanka

5.1 The relatively insufficient publicity of China

Since English is not official language in China, the outputs of Chinese media reports and academic research are mainly in Chinese language, which seriously hinders the information exchange between China and Sri Lanka and the publicity of OBOR related projects in Sri Lanka.

Because of the insufficiency of Chinese publicity, there are lack of knowledge and awareness of OBOR in the local society to various extent, and other voices tend to fill this vacuum and guide the public opinion, which may brew negative attitude towards OBOR.

5.2 The stability of political situation in Sri Lanka

The stable political and social environment is the foundation of development. OBOR as a millennium development project need a stable domestic and peaceful global environment. A slight move in one part may affect the situation as a whole. China must strive to maintain and foster stable and peaceful environment domestically and along the route of OBOR.

After the defeat of LTTE in 2009, Sri Lanka has generally enjoyed peace and tranquility. However, the competition among the political parties and factions complicated the investment environment. The current coalition government was the first time in Sri Lankan history for ruling party and opposition party to share political power and work together, while the former president Mahinda Rajapaksa is acting as the third polar. The delicate domestic politics of Sri Lanka makes the legislation and policy making more complicated and uncertain. Even if any party finally took the power in the future election will be pro-development, the 2015 case serves as the lesson of risk of regime change in local countries for China to reevaluate the risk of

¹⁰ Yi Xianliang. 'A brilliant future for China-Sri Lanka Cooperation under the Belt and Road Initiative', 23rd June 2017.

<http://www.dailymirror.lk/article/A-brilliant-future-for-China-Sri-Lanka-Cooperation-under-the-Belt-and-Road-Initiative-131455.html> (accessed on 17th August 2017)

OBOR.

Since many OBOR projects are long term and expected to transcend the government administrative period, China should put emphasis on formulating preparatory program in emergency, risk and interest sharing and flexible exit mechanisms to avert the political risks in OBOR countries.

5.3 The confrontational mindset of some big powers

Though OBOR in Sri Lanka strictly adheres to the markets rules and is economy-oriented, certain big powers are still worrying about the Chinese increasing economic presence in IOR.

Out of the security concerns and strategic confrontation mindset, some big powers are taking negative attitude to OBOR, which naturally reflects in their diplomacy with Sri Lanka and puts the latter on a tight rope to balance its foreign policies and compromise its own development strategy.

6. The Options

As the staunch promoter of OBOR, China should attach importance to the challenges mentioned above and take the countermeasures and initiative to enrich the contents and vitality of OBOR cooperation in Sri Lanka.

6.1 China should strengthen the publicity capability and enhance specific studies on OBOR countries

It's a systematic and arduous project for China to build its soft power and promote its positive image in Sri Lanka. Instead of leaving the language problem hamstringing the mutual understanding, China should further enhance the exchange of media and academy of both countries. Chinese media and thinktanks should also be accountable on timely responding to and clarifying the misunderstanding and publicize China's stance on certain issues in Sri Lanka, while the emerging Chinese civil societies could also contribute in this regard.

The OBOR countries are with various backgrounds of national situation, religion, administrative system, legislative system, ideology, etc. It will be counter-productive if we apply one size for all. The Chinese academy should keep doing thorough, targeted and dynamic research on specific OBOR countries in cooperation with local thinktanks to provide intellectual support for policy makers and substantially lay the foundation for mutual understanding.

6.2 China should strive to establish healthy cooperation and competition relationship with big powers in Sri Lanka

Cooperation and Competition is like two sides of a coin. It's inevitable and normal that China and other powers have both cooperation and competition relations in the OBOR countries.

To minimize the hindrance, China should take the initiative to improve bilateral relations with big powers on the one hand and guide it into a healthy cooperation and competition relationship in Sri Lanka on the other hand, which means China need to have a broader view, take more parties into the account and be proactive to figure out

a multi-win solution.

It's a difficult and complicated mission. The related parties should think out of the zero-sum game box and demonstrate that the projects are no threat to anyone but will benefit all.

6.3 The cooperation contents should be enriched to stimulate the vitality of bilateral OBOR cooperation.

While the port and shipping industries and crucial infrastructure projects should play the fundamental role in the bilateral OBOR cooperation, to make the cooperation more comprehensive and flourishing, China and Sri Lanka should enrich the contents and vitality of the cooperation and jointly exploit new sources of growth in cooperation, such as e-commerce, mobile payment, cultural industry and climate change.

6.3.1 Financial and business cooperation

As Sri Lanka is planning to build an international financial city in Colombo, both China and Sri Lanka can enhance financial infrastructure connectivity, jointly work on a long-term, stable and sustainable financing system. The Bank of China, one of major Chinese commercial banks, has set up its South Asian branch in Colombo. Moreover, Sri Lanka is able to make use of the Silk Road Fund, the CDB, Exim Bank of China and AIIB to enhance its financial capability.

E-commerce, mobile payment and sharing economy have been emerging in China and proved to be feasible to enhance the real economy.

As China and Sri Lanka are going to have more currency swap and the Sri Lankan government has already issued regulations on mobile payment and third-party payment (Payment and Settlement Systems Act, no. 28 of 2005 and Payment Cards and Mobile Payment Systems Regulations no. 1 of 2013), which could serve as the institutional foundation for China, Sri Lanka and other countries to cooperate in these businesses.

6.3.2 Infrastructure cooperation

During the pursuing of the common goal, China and Sri Lanka could improve the infrastructure facilities in Sri Lanka contributing to an international infrastructure network. Sri Lanka's geographic location shows a promising future of the shipping industry. Seizing the opportunity of development will improve Sri Lanka's competitiveness in the international shipping market.

Building the free trade zone and accelerating the consultation of the free trade agreement will benefit the people of both countries. The Sri Lankan government has shown its enthusiasm to actively participate in global value chains development and supply chain. It is foreseeable that Sri Lanka's basic industrial system will be greatly improved if the Hambantota logistic and industrial zone could be operated as early as possible.

One big opportunity would be to use Sri Lanka's comparative advantage in port services as the basis for a broader shipping services industry, much as Singapore used shipping as a foundation to build its economy. Colombo Port is already the biggest transshipment hub in South Asia, with some 70% of containers handled by the port

destined for elsewhere, mostly India. But a far bigger prize would involve moving up the value chain just as Singapore did, potentially turning Colombo into a regional hub for logistics, maintenance, engineering and financial services.¹¹

6.3.3 Cooperation in environment protection

China and Sri Lanka could deepen cooperation in environment protection, natural disaster management and combating climate change.

For example, garbage disposal was a headache for many developing countries. The garbage dump collapse tragedy in Sri Lanka April 2017, which cost 19 lives shocked the entire world. The garbage can not only be used as fuel for power generation but will be sorted and processed into fertilizer and other resources. This business has been proved to be profitable even without the subsidy from the government. Some Southeast Asian companies have already noticed the business opportunity and been cooperating Chinese partners.

As many developing countries are expecting China and India to take the lead in global climate governance after US Trump administration decided to withdraw from Paris Agreement. To enhance the climate resilience capability of Sri Lanka, China could usher in climate related mechanisms in the framework of BRICS and G20 and establish a tri-party climate demonstrative project.

6.3.4 Tourism and culture industry cooperation

Though the number of Chinese tourists to Sri Lanka increased rapidly in recent years. It still has immense potential to enlarge the scale.

In this regard, culture industry, esp. movie industry could serve as the booster, since it has a wide audience coverage. In recent years, the movies with foreign elements have been receiving heated extolling in China and attracting more and more Chinese tourists to visit the country.

Malaysia has taken the lead among other countries. The Prime Minister of Malaysia Najib Razak attended the OBOR Film Festival and Asian TV Rainbow Awards ceremony after attending the BRF and spared no effort to promote the cooperation of movie industry between the two countries. With strong policy support from the Malaysian government, many Chinese movie companies flocked to invest in Malaysia.

7. Conclusion

OBOR, which is rooted in history, aims at common development and making all the participating countries gain from building it, stands for enhancing international cooperation including synergy of various development strategies by building closer collaboration partnerships.

As Sri Lanka featured prominently in OBOR in the purview of South Asia and IOR, both China and Sri Lanka have strong incentives to leverage the geographical

¹¹ Yi Xianliang. 'A brilliant future for China-Sri Lanka Cooperation under the Belt and Road Initiative', 23rd June 2017.

<http://www.dailymirror.lk/article/A-brilliant-future-for-China-Sri-Lanka-Cooperation-under-the-Belt-and-Road-Initiative-131455.html> (accessed on 17th August 2017)

advantage of Sri Lanka, to resist the tendency of de-globalization and protectionism and to tap the potential of industrial capacity cooperation.

With deep-embedded common interests and time-tested trust, the relation of China and Sri Lanka has return to the right track after a short concussion in 2015 and the two sides are jointly making steady progress in the framework of OBOR. In regard with the foreseeable internal and external challenges, Chinese media, thinktanks and civil societies should enhance their cooperation with local counterparts to contribute to better understanding between both countries. China and Sri Lanka should work together to take proactive measures to attract as many stakeholders as possible and build healthy cooperation-competition relation with other powers with a broader view. Recognizing that the port and shipping industries and crucial infrastructure projects should play the fundamental role in the bilateral cooperation, this paper also proposed several constructive options for the consideration of the policymakers of both countries to overcome the challenges and enrich the contents and vitality of OBOR cooperation in Sri Lanka.

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Regional Centre for Strategic Studies
20/73, Fairfield Gardens, Colombo 8, Sri Lanka