

# The Influence of China's Belt and Road Initiative of Economic Crisis in Sri Lanka

*by 01 Ilmu hukum*

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## The Influence of China's Belt and Road Initiative of Economic Crisis in Sri Lanka

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### Abstract

Sri Lanka, as a country in the South Asian region, is bordered by southeastern India and is in the southern Indian Ocean Sea region. This makes Sri Lanka a country with fast trade and maritime traffic, as well as a seaport. Bilateral connections have existed between Sri Lanka and China since the country's inception, and have been enhanced by financial aid and other aid supplied to the Sri Lankan government throughout the civil war against the separatist organization Liberation Tigers of Tamil Eelam (LTTE). Negotiations between Sri Lanka and China ended in 2017 with a deal for a Chinese-owned business, China Merchant Port Holdings Company Limited, to acquire almost 85% of Hambantota Port shares for 99 years. Because developed countries clearly have a more dominant role in the process of economic globalization, The research method used is normative law research with a case approach. The results show Sri Lanka's dependence on foreign investment to drive a country's economic growth. Therefore, this study aims to determine the legal arrangements governing the effects of the Belt and Road on the economic crisis in Sri Lanka from the perspective of international law and to determine the positive and negative impacts on the planned project.

**Keywords:** China's Belt and Road Initiative, Sri Lanka, Debt Trap Diplomacy

### A. Introduction

Sri Lanka is currently falling into an increasingly severe economic crisis. This crisis itself is caused by a lack of foreign currency because it is used to

pay off foreign debt, the majority of which comes from China with its Belt and Road initiative. Sri Lanka has owed China for a variety of infrastructure projects, notably the development of the Colombo and Hambantota ports, since 2005. Sri Lanka presently owes China \$8 billion, accounting for nearly one-sixth of the country's entire foreign debt. In addition, it is also known that Sri Lanka has asked for help from several world financial institutions, such as the International Monetary Fund (IMF) and the World Bank, to open an emergency fund. The World Bank has so far disbursed US\$ 600 million, or Rp 8.6 trillion.<sup>1</sup>

Sri Lanka is a South Asian nation bordering southeastern India and located in the southern Indian Ocean. As a result, Sri Lanka has rapid commercial and marine traffic, as well as a seaport. Of course, this may be an attempt to strengthen the economy by expanding ports and improving their capability to support the country's economy once again. The improvement of Sri Lanka's economy was carried out after the end of the civil war that occurred in Sri Lanka, which occurred from 1983–2009.<sup>2</sup>

Bilateral relations between Sri Lanka and China have existed since the country's independence and have been bolstered by financial and other assistance provided <sup>15</sup> to the Sri Lankan government during the civil war against the separatist group Liberation Tigers of Tamil Eelam (LTTE).<sup>3</sup> This is what prompted Sri Lanka, under President Rajapaksa's administration, to establish ties with China. In return for this assistance, Sri Lanka supports all of China's

<sup>1</sup> Tommy Patrio Sorongan, "Terungkap! Penyebab Krisis Ekonomi di Sri Lanka Makin Suram," CNBC Indonesia, May 11, 2022, <https://www.cnbcindonesia.com/news/20220511070208-4-337959/terungkap-penyebab-krisis-ekonomi-di-sri-lanka-makin-suram>

<sup>2</sup> Isabel Alonso-Breto, "The Ethics of Care in the No Fire Zone: Anuk Arudpragasam's The Story of a Brief Marriage," *Atlantis, Journal of the Spanish Association for Anglo-American Studies*, 43, no. 1 (June 2021): 74, <https://doi.org/10.28914/Atlantis-2021-43.1.05>

<sup>3</sup> Nyoman End Triana Gayatri, Ni Wayan Rainy Priadarsini, A.A Bagus Surya Widya Nugraha, "Strategi Pemerintah Sri Lanka dalam Menangani Kelompok Liberation Tigers of Tamil Eelam (LTTE)," *JURNAL HUBUNGAN INTERNASIONAL*, 1, no.1, (July 2018): 3, <https://ojs.unud.ac.id/index.php/hi/article/view/37819>

foreign policies in the South Asian region. Sri Lanka has carried out various collaborations, especially in the fields of economy and development, and signed eight memorandums of understanding during the reign of Mahinda Rajapaksa.

China has a large share in various infrastructure developments in Sri Lanka through foreign investment schemes. China has contributed billions of dollars to the Sri Lankan economy in investments and loans for the construction of highways, ports, cricket stadiums, and the Convention Center. This officially became the diplomatic relationship between the two countries. These diplomatic relations encourage increased bilateral cooperation and foreign aid. Developed countries have a dominant role in the process of economic globalization. This dominant role is in line with the dominant advantages obtained by developed countries. This shows the dependence of a country on foreign investment to encourage a country's economic growth, as is the case with Sri Lanka, which has a dependence on investment from China.<sup>4</sup>

Regarding cooperation between the two countries, Sri Lanka co-sponsored the draft resolution facilitating China's entry into the UN Security Council in 1971. Sri Lanka also supported China's entry into the World Trade Organization (WTO) in 2001.<sup>5</sup> And this time, Sri Lanka is also participating as a Belt and Road Initiative participant, which gives funding in the form of investment to construct Sri Lanka's infrastructure and also promotes the Belt and Road Initiative program in creating the maritime silk route. The succeeding stages of collaboration had a significant influence on Sri Lanka's sovereignty. The association of Sri Lanka with Chinese investment, as part of the Belt and

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<sup>4</sup> A.S. Hovan George, A. Shaji George, T. Baskar, "Sri Lanka's Economic Crisis: A Brief Overview", *Partners Universal International Research Journal*, 43, No. 2, (June 2022): 10, <http://dx.doi.org/10.5281/zenodo.6726553>

<sup>5</sup> Tirta Nugraha Mursitama, Haura Emilia Erwin, "Sang Naga Membelit Asean: Kebijakan Ekonomi China Pasca Diterima sebagai Anggota WTO." *Global: Jurnal Politik Internasional*, 13, no. 1, (August 2011): 2, <https://doi.org/10.7454/global.v13i1.147>

Road Initiative, has progressively offered a gap for the debt trap that has developed.<sup>6</sup>

One of the development cooperation projects carried out is the Hambantota Port Project, initiated by the Government of Sri Lanka. The construction of this port includes refueling facilities and oil depots, administration buildings, roll-on/roll-off ship operations, namely cargo ships carrying wheeled vehicles and equipment, and artificial islands. This project was financed and built by China, which is a major donor in providing Sri Lankan financial assistance, through Chinese State-Owned Enterprises (BUMN).<sup>7</sup>

The Hambantota Port, which was supposed to help the country's economy when it first opened, has yet to provide significant benefits to Sri Lanka. This port, which is considered strategic, has experienced a large deficit due to the large operational costs and debt to China that cannot be covered by the revenue it generates. Therefore, this research is presented to discuss the following topics: The Influence of China's Belt and Road System on the Sri Lankan Crisis and Solutions to the Economic Crisis in Sri Lanka.

According to international law, the study was done in the nature of normative law, with a focus on legal concerns relating to the effect of China's Belt and Road Initiative on the economic crisis in Sri Lanka. This study analyzes ideas, legal principles, and regulations. Furthermore, this research uses a case study approach. This information is obtained from books, legal journals, newspapers, and other sources. Furthermore, legal documents are examined and categorized based on discussion and interpretation related to

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<sup>6</sup> Longcan Zou, Jim Huangnan Shen, Jun Zhang, Chien-Chiang Lee, "What is the rationale behind China's infrastructure investment under the Belt and Road Initiative." *Journal of Economic Surveys* 36, no.3, (July 2022): 605, <https://doi.org/10.1111/joes.12427>

<sup>7</sup> Mehmet G. Yalcin, Satya S. Chakravorty, Gawon Yun, "Informing the balanced theory of port competitiveness using ambidextrous supply chain strategy." *Transportation Journal*, 58, no. 1, (January 2019): 24, <https://doi.org/10.5325/transportationj.58.1.0021>

o important ideas on the issues emphasized and described qualitatively using deductive and inductive methods to find solutions to problems.

## **B. Discussion**

### **B. 1. Understanding China's Belt and Road Initiative**

The Belt and Road Initiative, worth \$4 trillion, is widely regarded as China's most ambitious global trade and investment initiative to date. The project was previously known as One Belt, One Road, but it was subsequently renamed the Belt and Road Initiative because the word "one" in One Belt, One Road indicates just one network, whereas the phrase "one" in the Belt and Road Initiative would more appropriately represent a set of project networks. At the 19th National Congress of the Communist Party of China in October 2017, the Belt and Road Initiative was included in the party's constitution, indicating the project's policy importance to China and its present leadership.<sup>8</sup>

The Belt and Road Initiative is China's endeavor to recreate the Ancient Silk Road network, which was a land and maritime commerce route between China and Europe. During a tour to Central and Southeast Asia in late 2013, Xi Jinping, President of the People's Republic of China, announced the initiative. It is regarded as the focal point of Chinese President Xi Jinping's foreign policy. President Xi Jinping launched the Belt and Road Initiative in 2011. During his leadership, this initiative was a major goal. The goal of this initiative is to improve infrastructural, trade, and investment networks between China and other developing nations, particularly those on the European and Asian continents (Eurasia).<sup>9</sup>

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<sup>8</sup> Artha Yudilla, "Kerjasama Indonesia Cina Dalam Belt and Road Initiative Analisa Peluang Dan Ancaman Untuk Indonesia." *Journal of Diplomacy and International Studies* 2, no. 01 (April 2019): 52, [https://doi.org/10.25299/jdis.2019.vol2\(01\).4427](https://doi.org/10.25299/jdis.2019.vol2(01).4427)

<sup>9</sup> Fathin Nisa Muthia Harahap, Rr. Hermi Susiatiningsih, "Analisis Potensial Tiongkok Untuk Menjadi Negara Hegemon di Kawasan Asia Timur Melalui Strategi One Belt One Road." *Journal*



China's Belt and Road Initiative has two trade routes: a land route called the *New Silk Road Economic Belt* and a sea route called the *21st Century Maritime Silk Road*. The concept of the *New Silk Road Economic Belt* was introduced by President Xi Jinping during his first state visit to Kazakhstan in 2013.<sup>10</sup> Meanwhile, President Xi Jinping launched the idea of the *21st Century Maritime Silk Road* during a visit to Indonesia in October 2013. The phrase "belt" refers to a network of land roadways, pipelines, trains, and other infrastructure. While the name "road" alludes to a network of ports and marine trade routes, the *Silk Road Economic Belt* (Belt) runs from China to Europe, via Central Asia, and beyond. More than 20 nations are linked by the *21st Century Maritime Silk Road* (Road), which links China to Southeast Asia, the Middle East, East Africa, and Europe through the Mediterranean, Indian, Atlantic, and Pacific Oceans.<sup>11</sup> This route was built in order to strengthen China's diplomacy with the South and Southeast Asian regions, which focuses on sea trade.

Since ancient times, Sri Lanka has been an important stop on the Maritime Silk Road. It is located along one of the world's busiest commercial routes, links Asia to Europe, and is vital to China's Belt and Road Initiative. As previously stated, the Belt and Road Initiative is a network of land routes linking China to Europe through Central Asia and the Middle East. Meanwhile, the Silk Road is a network of maritime trade routes that connects China to Southeast Asia, the Middle East, East Africa, and Europe through the Mediterranean, Indian, Atlantic, and Pacific Oceans, linking over 20 nations.

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*of International Relations* 6, no. 2 (January 2020): 170, <https://doi.org/10.14710/jirud.v6i2.26540>

<sup>10</sup> Yakov Silin, Larisa Kapustina, Italo Trevisan & Andrei Drevaev, "The silk road economic belt: balance of interests," *Economic and Political Studies* 6, no. 3 (September 2018), 294, <https://doi.org/10.1080/20954816.2018.1499072>

<sup>11</sup> Jasmine Siu Lee Lam, Kevin Patrick Brendan Cullinane & Paul Tae-Woo Lee, "The 21st-century Maritime Silk Road: challenges and opportunities for transport management and practice," *Transport Reviews* 38, no. 4 (May 2018): 413-414, <https://doi.org/10.1080/01441647.2018.1453562>

The Belt and Road Initiative aims to improve connectivity and collaboration among Asian, African, Chinese, and European nations. The focus is on developing land-sea connections through a network of highways, rail lines, and seaports. This is mostly accomplished via large-scale infrastructure initiatives aimed at improving seaports and trade transportation. The initiative includes 65 nations and almost 60% of the world's population. The Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund, a US\$50 billion development fund formed for the initiative, provided funding for the project.<sup>12</sup>

Concerns over a downturn in China's economy, which is moving from an investment-driven development model to a consumer-demand growth model, prompted the endeavor. With China having overcapacity in a variety of areas, pursuing market access overseas is expected to alleviate the issue at home. The program will also provide Chinese enterprises with possibilities to execute projects and trade with Belt and Road Initiative nations, assisting them in becoming internationally competitive and global brands via joint ventures, technology transfer, and public-private partnerships. The Belt and Road Program is seen as an open and inclusive initiative that welcomes participation from all countries in its development.

The Belt and Road Initiative has five key goals: policy coordination, connectivity, unrestricted commerce, financial integration, and people-to-people connections. The Belt and Road Initiative aims to accomplish policy coordination via intergovernmental collaboration on macroeconomic policies, improved connectivity through trade infrastructure development, and trade and investment cooperation.<sup>13</sup> Financial integration will be accomplished through collaborative efforts to create the AIIB New Development Bank, the signing of a Memorandum of Understanding on bilateral financial regulatory cooper

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<sup>12</sup> Elena F. Tracy, Evgeny Shvarts, Eugene Simonov & Mikhail Babenko, "Eurasian Geography and Economics 58, no. 1 (February 2017): 6, <https://doi.org/10.1080/15387216.2017.1295876>

<sup>13</sup> Peter Cai, "Understanding China's belt and Road Initiative," *Lowy Institute*, March 22, 2017, <https://www.lowyinstitute.org/publications/understanding-china-s-belt-road-initiative>



ation, and the construction of an effective regulatory coordination system. The Belt and Road Initiative is likely to benefit Southeast Asia and South Asia the most. This is due in part to its closeness to China, its greater degree of development, and the desire for improved infrastructure. Europe, Russia, Central Asia, and Africa are also beneficiaries.<sup>14</sup> Infrastructure has received the most money so far, but it also includes investment in industry and commerce, as well as greater concessional investment in tourism and culture.

One of the most difficult difficulties for this endeavor is gaining support and collaboration from other developing nations, particularly India. Western governments are likewise wary of the program, seeing it as a means for China to expand its geopolitical clout and influence. Nonetheless, numerous nations, particularly those in South Asia (Bangladesh, Maldives, Nepal, Pakistan, and Sri Lanka) and Southeast Asia, have provided high-level support.

The Belt and Road Initiative project has increased in terms of funding and nations engaged since its launch four years ago. The Belt and Road Forum for International Cooperation was held in Beijing in May 2017. It was attended by 29 heads of state, delegates from 130 nations, and representatives from over 70 international organizations. The summit was the highest-level gathering since the Belt and Road Initiative was announced in 2013.<sup>15</sup> The Belt and Road Initiative now includes North and South America, and Chinese investment in Latin America expanded rapidly in 2017. China has gone from being one of Latin America's smallest trade and investment partners to one of its greatest in less than a decade.

<sup>14</sup> Christoph Nedopil Wang, "China Belt and Road Initiative (BRI) Investment Report H1 2022." *Beijing: International Institute of Green Finance (IIGF) Green BRI Center*. [https://greenfdc.org/wp-content/uploads/2022/07/GFDC-2022\\_China-Belt-and-Road-Initiative-BRI-Investment-Report-H1-2022.pdf](https://greenfdc.org/wp-content/uploads/2022/07/GFDC-2022_China-Belt-and-Road-Initiative-BRI-Investment-Report-H1-2022.pdf)

<sup>15</sup> John Hurley, Scott Morris, Gailyn Portelance, "Examining the debt implications of the Belt and Road Initiative from a policy perspective." *Journal of Infrastructure, Policy and Development* 3, no. 1 (2019): 148, <http://dx.doi.org/10.24294/jipd.v3i1.1123>

## B. 2. The History of Sri Lanka's Relationship with China

Sri Lanka is one of the target countries for China's cooperation. If you look at history, the relationship between the two countries has been formed since the time of the kingdom, even though at that time Sri Lanka actually gained a lot of influence through India. Sri Lanka's strategic position became an attraction for other nations, including China, to cooperate.

Prior to its independence in 1948, Sri Lanka was under Portuguese, Dutch, and British rule. Until its independence, Sri Lanka was one of the countries under the rule of the British Empire, along with India and other countries. Until 1972, Sri Lanka was a republic that implemented a form of government led by the president as an executive in 1978, and there was a prime minister who was appointed by the president as an assistant in carrying out his presidential duties.<sup>16</sup>

Since China's independence in 1957, it has approached and built connections with Sri Lanka. After Srimavo Airayanake became Prime Minister of Sri Lanka, he promoted collaboration with China to overcome the country's current difficulties. Eventually, in 1962, the two nations struck an agreement.<sup>17</sup> Sri Lanka was at the heart of the old Silk Road, which connected Europe and China. Although the early Silk Route operated over land, once the Mongol Empire fell in the 14th century, China adjusted its strategy to put a heavier focus on marine commerce, and Sri Lanka has been a component of China's maritime trading routes ever since.

Sri Lanka's strategic position is bolstered by its placement in the Indian Ocean region (IOR). The IOR has always been a vital trading route for China, and Sri Lanka's geopolitical location has made the country's position critical.

<sup>16</sup> Michael G Breen, "The origins of holding-together federalism: Nepal, Myanmar, and Sri Lanka." *Publius: The Journal of Federalism* 48, no. 1 (March 2018): 12, <https://doi.org/10.1093/publius/pjx027>

<sup>17</sup> M. I. M. Irfan, M. A. M. Fowsar, "Learning from the Chinese model of development and moulding China-Sri Lanka relations." *J. Pol. & L.* 13, no. 3 (August 2020): 57, <https://doi.org/10.5539/jpl.v13n3p57>

According to statistics, the southern area of Sri Lanka handles more than two-thirds of the oil traffic and half of the container commerce. As a consequence, the location of Sri Lanka on marine trade routes is significant.<sup>18</sup>

When signed in December 1952, the Rubber-Rice Pact between Sri Lanka and China represented a significant milestone in the two nations' bilateral ties. It was also one of China's first accords with a non-communist nation. In reality, it was signed five years before the two nations' official diplomatic ties were formed. Sri Lanka was promised to import 270,000 metric tons of rice per year under this agreement, while China pledged to purchase 50,000 tons of rubber every year for the next five years. Until 1982, this contract was renewed every five years.<sup>19</sup> This is regarded as the most beneficial trade deal Sri Lanka has ever negotiated, since it assures that China gives 40% more of the market price for rubber while Sri Lanka delivers rice for less than a third of the market value. It is also regarded as one of the world's most successful and long-lasting South-South trade accords.

Significant Progress in Sri Lanka-China Relations Many agreements were reached between the two nations during the administration of Sri Lankan President Mahinda Rajapaksa, and ties became closer as a consequence of Rajapaksa's pro-China posture. President Rajapaksa, for example, signed eight bilateral agreements and an MoU with China during his official visit to China in 2007 to commemorate the Golden Anniversary of diplomatic ties. It comprises agreements on economic and technological cooperation, the formation of Friendly Cities Relations between Guangzhou and Hambantota, investment promotion cooperation, film industry collaboration, academic exchanges, and

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<sup>18</sup> Zhen Wang, Feng Ye, "China-Sri Lanka Relations in the Context of the 21st-Century Maritime Silk Road: Motives, Challenges, and Prospects," *Asian Perspective* 43, no. 3 (2019): 487, <https://doi.org/10.1353/apr.2019.0020>

<sup>19</sup> Saman Kelegama, "China-Sri Lanka economic relations: an overview," *China Report* 50, no. 2 (May 2014): 132, <https://doi.org/10.1177/0009445514523646>

so on. Since then, Sri Lanka has been one of the first nations to formally embrace the Belt and Road Initiative, linked with the country's strategic development agenda.<sup>20</sup>

### B. 3. Belt and Road Initiative in Sri Lanka

The Belt and Road Initiative has five key goals: policy coordination, connectivity, unrestricted commerce, and financial integration. In terms of connection, China has fulfilled this by investing in a number of important projects in Sri Lanka to improve the country's connectivity with the rest of the globe. As previously stated, the Belt and Road Initiative program is split into two major initiatives: a rejuvenated land route between China and Europe through Russia and the Maritime Silk Road, which intends to link numerous nations via water routes and new infrastructure. Given Sri Lanka's geographic position in the center of the Indian Ocean, this final endeavor focused on Sri Lanka as a hub supporting the smooth passage of products from China to Sri Lanka and other Southeast Asian countries and beyond. Currently, China imports energy from the Middle East and minerals mostly from Africa via Sri Lanka.

As a consequence, the majority of the Belt and Road Initiative's investment in Sri Lanka has gone toward assisting this marine initiative, and a number of important infrastructure projects have begun. Sri Lanka has now received up to \$8 billion in financing from China under the Belt and Road Initiative. The Chinese government and the China-backed Asian Infrastructure Investment Bank (AIIB) have requested an extra \$32 billion in financing for further infrastructure projects.<sup>21</sup>

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<sup>20</sup> Sohini Nayak, "The BRI Quandary in Nepal and Sri Lanka." *MAPPING THE BELT AND ROAD INITIATIVE* (New Delhi: Observer Research Foundation, 2021), 6-27.

<sup>21</sup> Jonathan E. Hillman, "How big is China's Belt Road?" Center for Strategic and International Studies, 3 April 2018, <https://www.csis.org/analysis/how-big-chinas-belt-and-road>

One of China's cooperation policies in its Belt Road Initiative is regarding aspects of port development. Sri Lanka needs a port to drive the country's economy. With this port, it will automatically make it easier for Sri Lanka to export and import. However, it should also be understood that China took such an initiative because the port built in Sri Lanka is China's capital in developing and advancing the country's economy. The existence of this port does not only represent Sri Lankan commodities but also serves as a transit point for ships to transport and distribute export-import commodities to China, coupled with the fact that the port is also <sup>18</sup> part of China's maritime trade route in the Belt and Road Initiative. This form of cooperation is a way of strengthening the national interests of a richer country while working side by side with the developing countries under it.

Notable Belt and Road Initiative projects in Sri Lanka include:

#### *B.3.1.Belt and Road Initiative in Colombo Port*

One of China's cooperation policies in its Belt Road Initiative is regarding aspects of port development. Sri Lanka needs a port to drive the country's economy. With this port, it will automatically make it easier for Sri Lanka to export and import. However, it should also be understood that China took such an initiative because the port built in Sri Lanka is China's capital in developing and advancing the country's economy. The existence of this port does not only represent Sri Lankan commodities but also serves as a transit point for ships to transport and distribute export-import commodities to China, coupled with the fact that the port is also <sup>18</sup> part of China's maritime trade route in the Belt and Road Initiative. This form of cooperation is a way of strengthening the national

interests of a richer country while working side by side with the developing countries under it.<sup>22</sup>

### *B.3.2. Belt and Road Initiative in Hambantota Port*

In addition to collaborating to build hubs and urban areas in Colombo Port, the Belt and Road Initiative is also collaborating to rebuild Hambantota Port. Hambantota Port is one of the important ports in Sri Lanka. The geographical location of this port, which is on the southernmost side of Sri Lanka, is the reason behind the importance of this port.

If you look at the routes of maritime trade published by Man Hung Thomas in his journal, it shows that the routes of international trade pass through the southern part of Sri Lanka. This is an advantage for Sri Lanka because this route is one of the busiest maritime trade routes because it is close to the Malacca Strait, which is an important route in international trade routes. This is also the route that is used by China when it imports petroleum from countries in the Middle East, so this is an important route for China itself.<sup>23</sup>

Previously, the Port of Colombo was the main port for Sri Lanka, but since the 1970s, the construction of a new port has begun. After a long delay in construction, when Mahinda Rajapaksa, who came from Hambantota, was elected president of Sri Lanka, he then started construction of this port to build up their homeland. In 2008, the construction of the first phase of the Hambantota Port began. In the construction of this port, as a country that has close ties to India, Sri Lanka asked for financial assistance for development but

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<sup>22</sup> Tharindu Udayanga Kamburawala, Dilmini Hasintha Abeyrathne, "Belt and Road Initiative (BRI) and Sri Lanka: A Review of Literature." *KDU Journal of Multidisciplinary Studies* 4, no. 2 (2022): 61, <http://doi.org/10.4038/kjms.v4i2.51>

<sup>23</sup> Man Hung Thomas Chan, "The belt and road initiative—the new silk road: a research agenda." *Journal of Contemporary East Asia Studies* 7, no. 2 (February 2019): 111, <https://doi.org/10.1080/24761028.2019.1580407>



was refused because they considered the construction of this port to be non-commercial. So Sri Lanka then turned to asking for help from China, but because at that time China already had several projects, it had to refuse requests from Sri Lanka. Sri Lanka then tried to negotiate with the London Interbank Offered Rate (LIBOR), but development cooperation was then carried out with China, namely the Export-Import Bank of China (EXIM Bank).<sup>24</sup>

The Hambantota Port investment offer to China is not easy for Sri Lanka. China's refusal to invest is due to the large number of Chinese investments in Sri Lanka itself. However, because of Sri Lanka's ambition to build a new port, it has encouraged them to continue making offers to China to invest in Hambantota Port. In fact, because of its ambition to build a new port, Sri Lanka decided to ask China for a commercial loan. The decision to make commercial loans when the country is unstable, as happened in Sri Lanka in 2007, will pose a threat of financial losses going forward.

#### **B. 4. The Beginning of Sri Lanka Entering the China Debt Trap**

The Hambantota Port, which was expected to be able to attract more cargo ships, turned out to be less attractive, resulting in commercial problems and low industrial activity. This is also supported by the poor management of the Sri Lankan government in managing this port. After the port was opened, the Sri Lankan government chose to regulate this port without foreign interference through the state-run Sri Lanka Ports Authority (SLPA) and rejected many investment offers from foreign companies.<sup>25</sup> However, due to

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<sup>24</sup> Roy-Chaudhury, Shantanu, "China, the belt and road initiative, and the Hambantota port project." *St Antony's International Review* 15, no. 1 (May 2019): 6, <https://www.ingentaconnect.com/content/stair/stair/2019/00000015/00000001/art00010>

<sup>25</sup> Abhijit Singh, "China's 'maritime bases' in the IOR: A chronicle of dominance foretold." *Strategic Analysis* 39, no. 3 (April 2015): 293-297, <https://doi.org/10.1080/09700161.2015.1022320>

poor management, Sri Lanka suffered a loss of \$304 million in 2016.<sup>26</sup> Until finally, after Rajapaksa stepped down and was replaced by Maithripala Sirisena, changes began to occur in management arrangements, even though at that time the available options were limited. After becoming president, Maithripala reviewed the development agreement and stopped the construction being carried out at the port. However, the policies implemented resulted in more losses for Sri Lanka and a failure to pay debts to China. Sri Lanka has actually been trying to pay off its debts to China by spending nearly 95% of their annual income to repay debts, but with such a large amount of debt, Sri Lanka is still unable to pay off all of its debts.

To overcome the crisis it was facing, Sri Lanka and its new leaders initially tried to strengthen economic cooperation relations with India, Japan, and Western countries. However, they later realized that, in the economy, only China was able to help them get out of the crisis they were experiencing. In 2016, Sri Lanka then tried to negotiate with China by offering to reinvest in the second phase of development at the port. China, which at that time did have an interest because Sri Lankan waters were a route for the Maritime Silk Road, was considering investing again. In negotiations on reinvestment, China will agree to invest on the condition that a Chinese company will manage the port, not just invest money in Sri Lanka.<sup>27</sup>

Until finally, in 2017, negotiations between Sri Lanka and China culminated in an agreement in which a Chinese-owned company, China Merchant Port Holdings Company Limited, acquired nearly 85% of Hambantota

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<sup>26</sup> I Gst Ngr Arya Permana Putera, Idin Fasisaka, Anak Agung Ayu Intan Prameswari, "Kepentingan Tiongkok Dalam Akuisisi Pelabuhan Hambantota Sri Lanka." *Jurnal Hubungan Internasional* 1, no. 1 (March 2019): 2, <https://ojs.unud.ac.id/index.php/hi/article/view/47631>

<sup>27</sup> Romi Jain, "China's Economic Expansion in South Asia: Strengths, Challenges and Opportunities." *Indian Journal of Asian Affairs* 31, no. 1/2 (December 2018): 28, <https://www.jstor.org/stable/26608821>.

Port shares for 99 years. Debate then arose regarding the acquisition of Hambantota Port by China. The Sri Lankan government itself has received a lot of criticism for its decision, but Sri Lanka itself has no other choice but to pay off its debts to China. Seeing the problems that occurred in Sri Lanka, of course, one cannot blame only one side. Seeing how China plays a role by providing large amounts of assistance for port development regardless of the conditions in Sri Lanka, and how this seems to be a form of manipulation by China by exploiting the resources they have.<sup>28</sup>

#### **B. 5. Economic Crisis Resolution in Sri Lanka**

Economic growth is a long-term problem that must be addressed by every country where very rapid economic growth is expected. Every country has the same goal, how to accelerate its economic growth.

Economic growth is the process of continuously increasing output per capita over time. Economic growth is the cause of whether or not a country's economy is healthy, and economic growth is an absolute requirement for the advancement and prosperity of the nation. If a country cannot increase its economic growth, it will create new economic and social problems, such as high levels of poverty.

Sri Lanka's economy is in a state of disarray. The bankruptcy is inextricably linked to the inability of Sri Lanka's government to avert the biggest economic disaster in the country's history. As a consequence, Sri Lanka was unable to repay its foreign debt (ULN), which had reached over \$50 billion.<sup>29</sup> The people of Sri Lanka must be feeling a variety of negative

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<sup>28</sup> Degang Sun, Yahia Zoubir, "'Development first': China's investment in seaport constructions and operations along the maritime Silk road." *Asian Journal of Middle Eastern and Islamic Studies* 11, no. 3 (July 2017): 44, <https://doi.org/10.1080/25765949.2017.12023308>

<sup>29</sup> Qinghan Jiang, "Debt Crisis and National Bankruptcy: Evidence from Sri Lanka". *BCP Business & Management* 29 (October 2022):315, <https://doi.org/10.54691/bcpbm.v29i.2288>.

consequences as a result of the recent economic crisis. Access to basic services like fuel oil (BBM) and food would be difficult, to the point that the value of the Sri Lankan currency would be felt by the residents of this nation.

To overcome the economic crisis situation that occurred in Sri Lanka, the resolution that can be carried out by Sri Lanka at this time is that there are two steps that the Sri Lankan government can take to revive its economy, namely by carrying out fiscal expansion and providing massive incentives in the form of reducing taxes and interest rates. To repair damaged sectors, fiscal expansion, or an increase in government expenditure budget, is required. The target for expanding the spending budget can be directed to social assistance, providing subsidies, or infrastructure development. It is considered that this requires IMF assistance to obtain sources of funds to improve the economic system in Sri Lanka.<sup>30</sup>

To resolve the economic crisis, Sri Lanka is thought to need to first reform its government and break away from reliance interactions with China, particularly the Belt and Road Initiative system. Then, Sri Lanka is also considered to need to increase the efficiency of the government bureaucracy by consistently eradicating corruption. This is referred to as an absolute requirement for Sri Lanka to be able to rise from its bankruptcy. At the same time, Sri Lanka also needs to restore the confidence of investors and business actors to focus on labor-intensive investments. As a result, the country's economy can get back on track.

### **C. Conclusion**

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<sup>30</sup> Su-Lin Tan, "Sri Lanka and IMF reach preliminary deal on \$2.9 billion loan," CNBC, September 1, 2022, <https://www.cnbc.com/2022/09/01/sri-lanka-and-imf-reach-preliminary-deal-on-2point9-billion-loan-.html>

The research results show that the Belt and Road Initiative project financed by China in Sri Lanka has caused a very large increase in the country's debt. This caused Sri Lanka to have difficulty paying its debts and led to an economic crisis. Apart from that, the Belt and Road Initiative projects have also caused serious environmental problems and social problems such as unemployment and a reduced quality of life for the community. that the Belt and Road Initiative has caused an economic crisis in Sri Lanka. The Sri Lankan government must be careful in managing the Belt and Road Initiative project and must consider the negative impacts that may occur. The Chinese government must also be more transparent in managing Belt and Road Initiative projects and pay attention to social and environmental conditions in Belt and Road Initiative partner countries. This can be seen as a form of modern colonialism through the economy.

Sri Lanka is expected to carry out fiscal expansion and provide massive incentives in the form of lower taxes and interest rates in order to resolve the economic crisis. and began to improve the system of government. At the same time, Sri Lanka also needs to restore the confidence of investors and business actors to focus on labor-intensive investments. As a result, the country's economy can get back on track. This is considered an absolute necessity to restore the economy of Sri Lanka.

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