

CHINA IN THE INDIAN OCEAN: *A PERSPECTIVE FROM SRI LANKA*

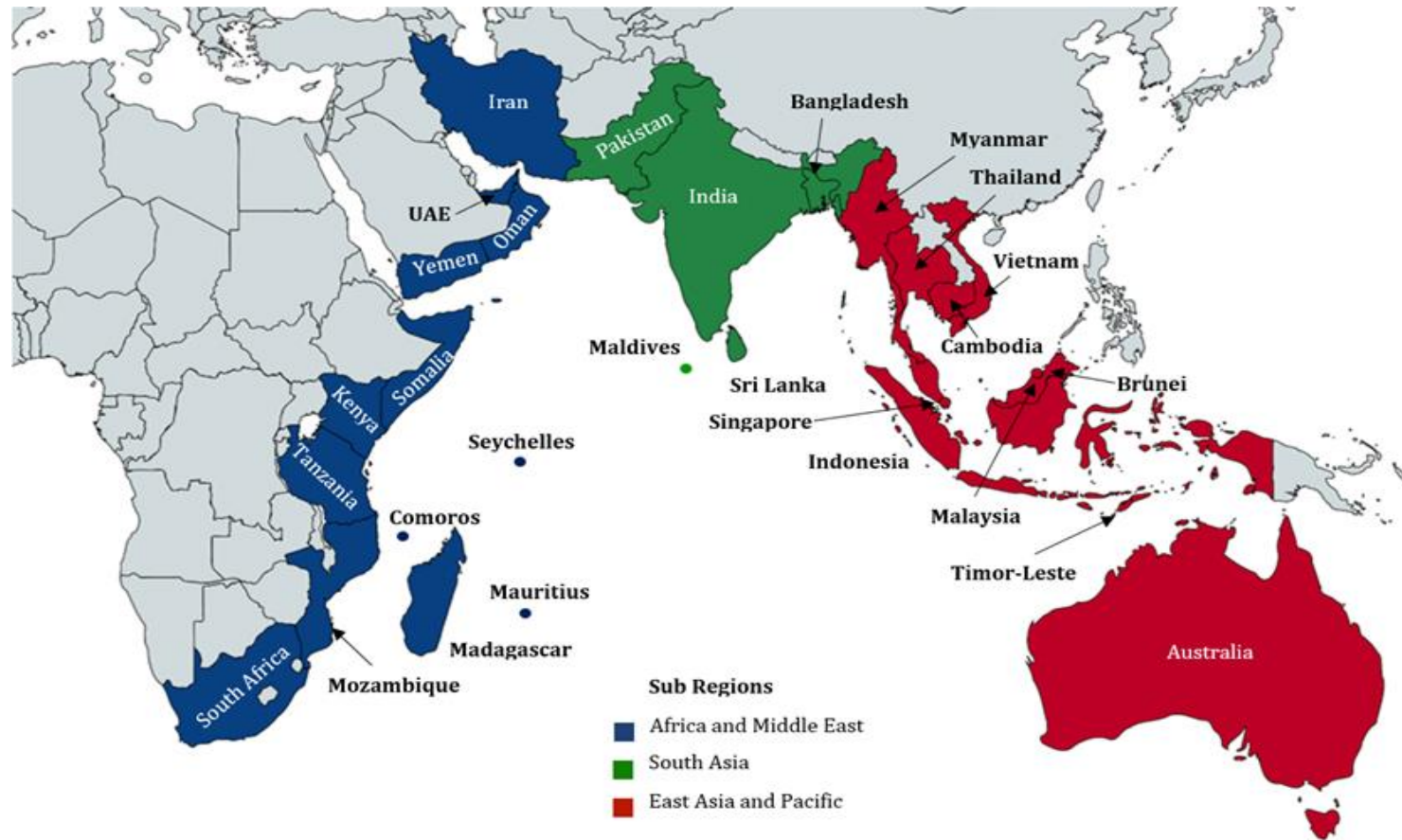
DINUSHA PANDITARATNE

NONRESIDENT FELLOW, LAKSHMAN KADIRGAMAR INSTITUTE (LKI)

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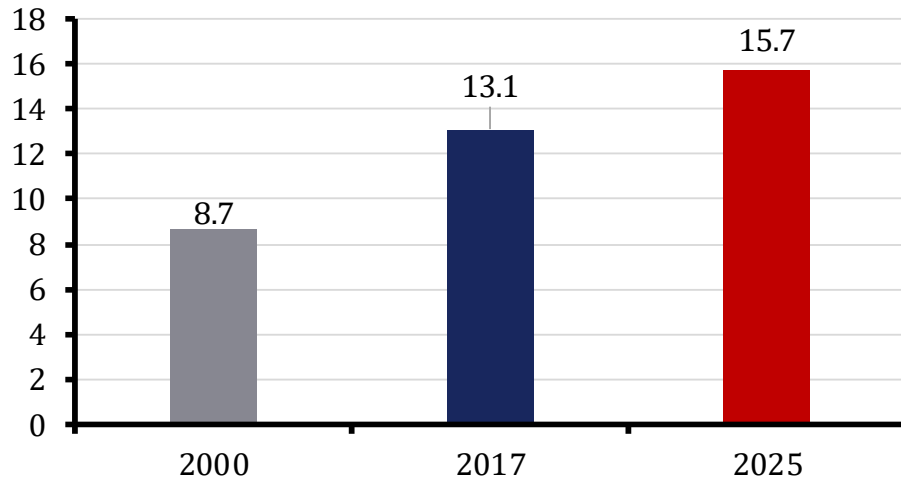
Sri Lanka in the Indian Ocean Region (IOR)

Sri Lanka's Indian Ocean Identity

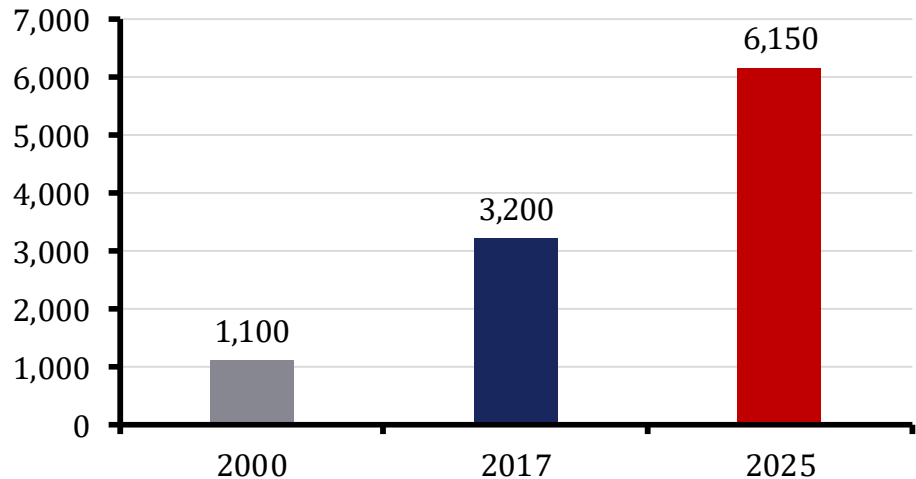


The Indian Ocean Economy in 2025

Share of World Trade
(%)

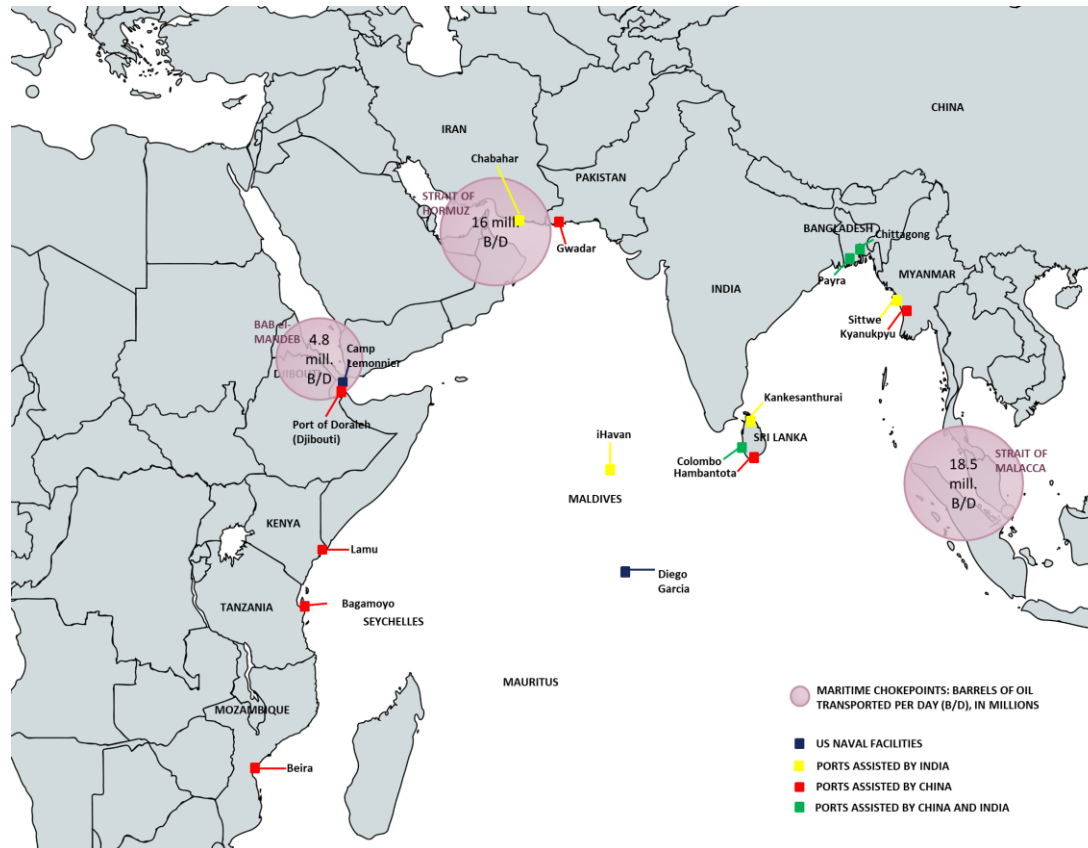


GDP Per Capita
(US Dollars)



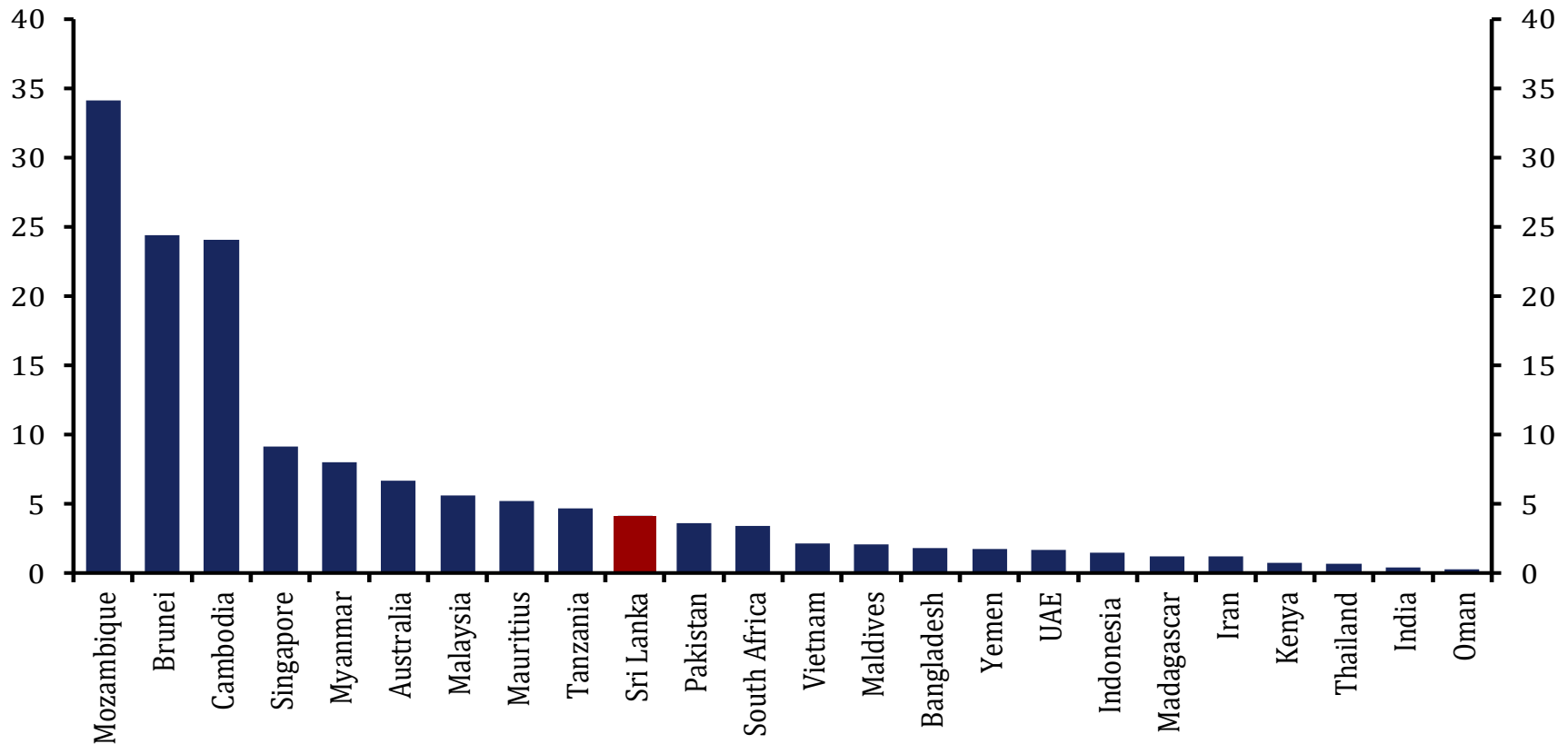
Sources: LKI calculations involving 28 IOR states, based on World Bank and IMF databases

Indian Ocean Ports and Strategic Assets



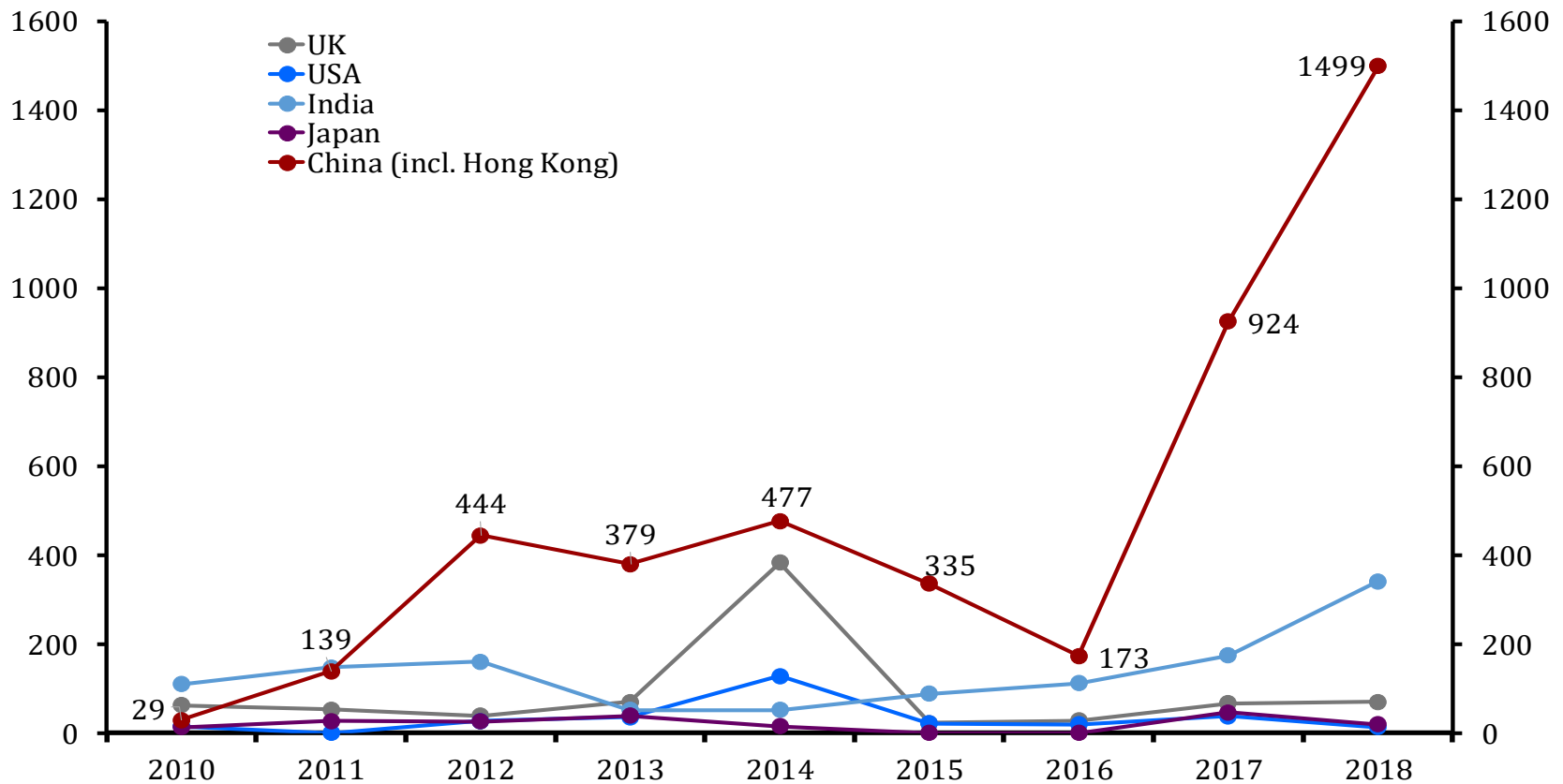
China's Commercial Presence in the IOR: Investment

Cumulative Chinese Investment in the Indian Ocean (2005-2018, % of 2018 Nominal GDP)



Sources: LKI calculations based on China Global Investment Tracker and IMF WEO

Sri Lanka's Inward FDI (US\$ Millions)



Source: Board of Investment, Sri Lanka

Colombo Port City
(Colombo International Financial City)



Strongly Supported Concerns

- ❑ Lack of a national infrastructure plan, leading to *ad hoc* projects and resulting inefficiencies
- ❑ Shortfall in capacity to negotiate investment agreements
- ❑ A need to diversify sources of foreign investment
- ❑ Weakness of local institutions in tackling corruption

Other Concerns about Investment

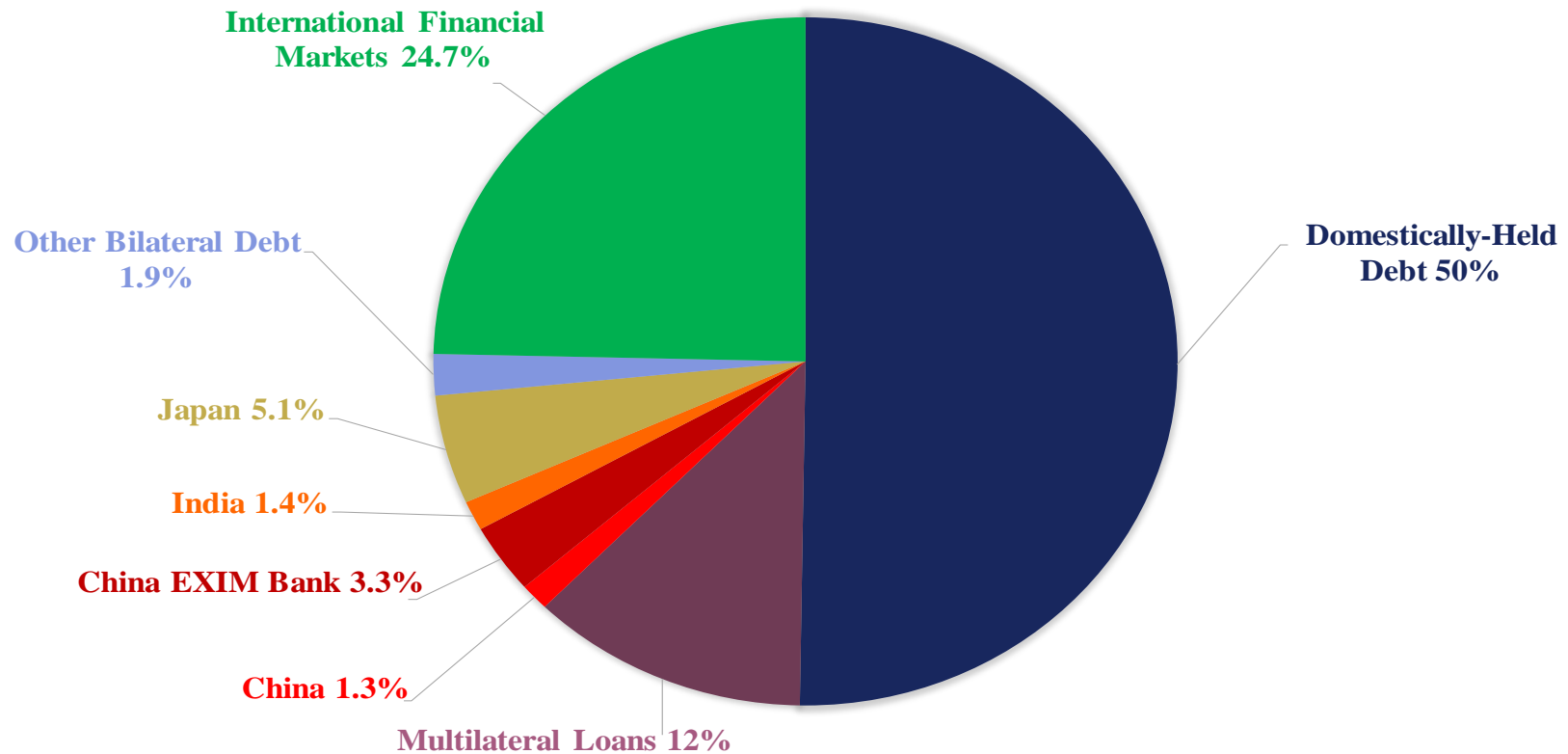
Concerns Needing Further Study

- ❑ Environmental effects
- ❑ Impact on local labor and other stakeholders

Weakly Supported Concerns

- ❑ 'Dual use' investments
- ❑ 'Debt trap' diplomacy

Sri Lanka Central Government Debt by Ownership (End-2018, % of Total)

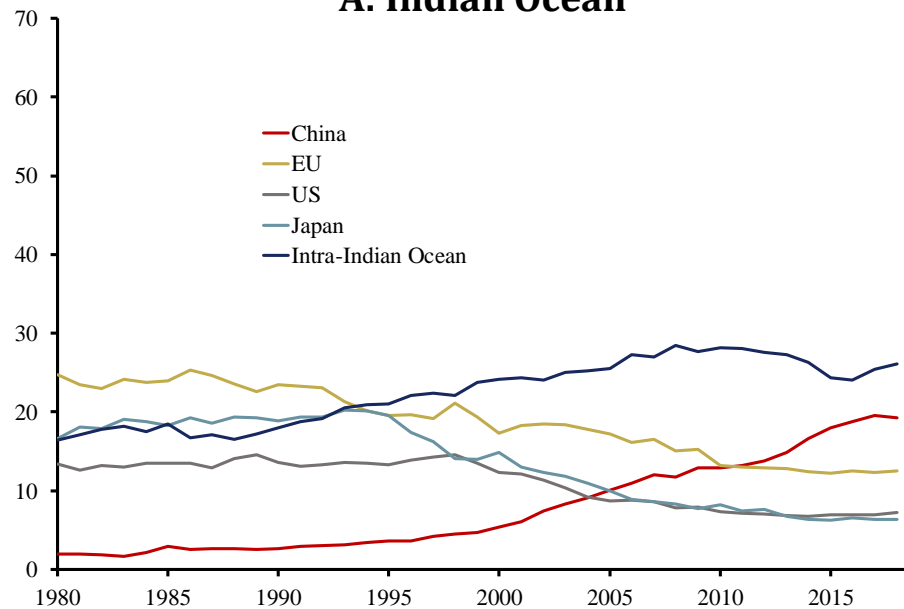


Source: Central Bank of Sri Lanka Annual Report 2018

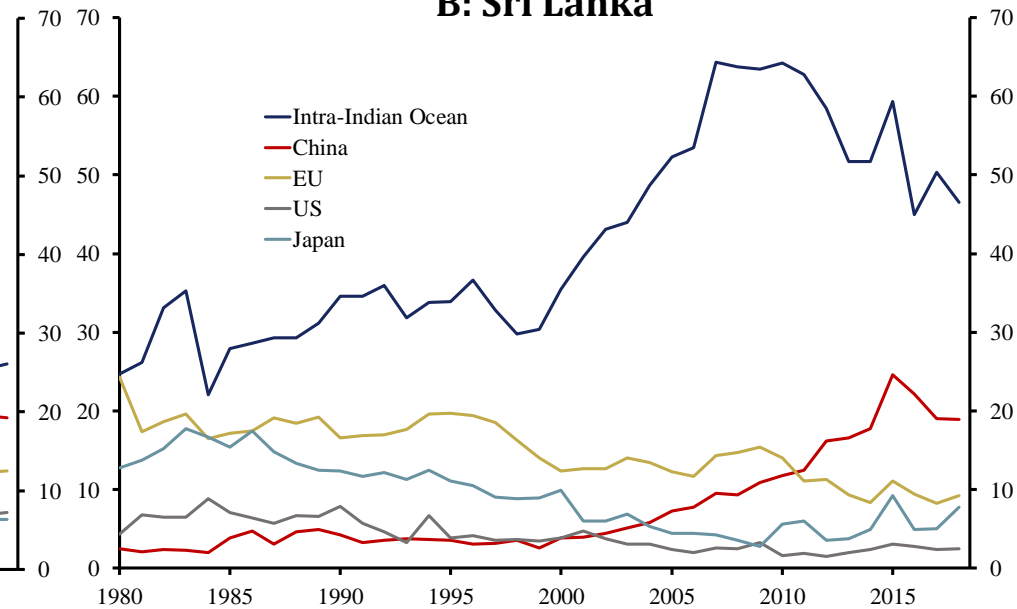
China's Commercial Presence: Trade and Tourism

Goods Imports by Partner (% of Total 1980-2018)

A: Indian Ocean



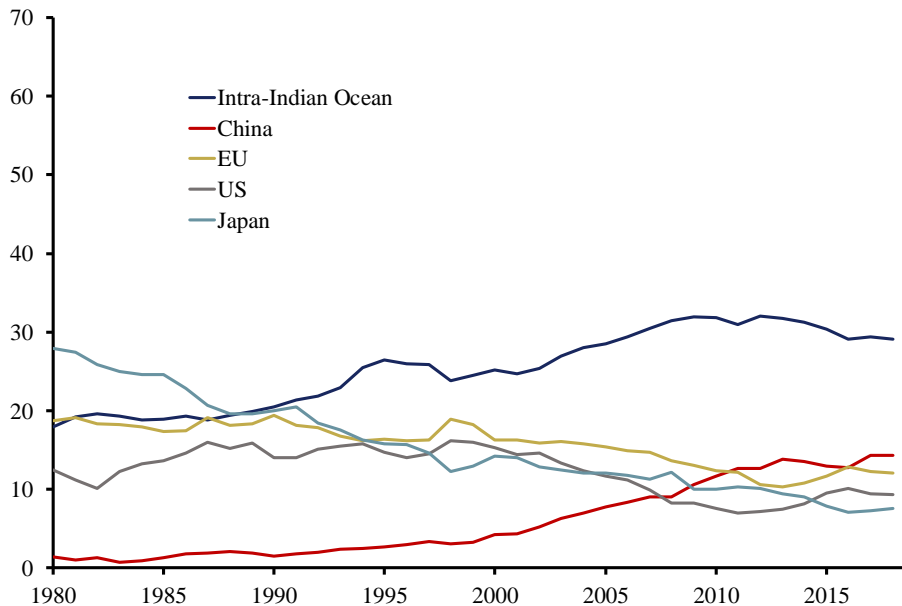
B: Sri Lanka



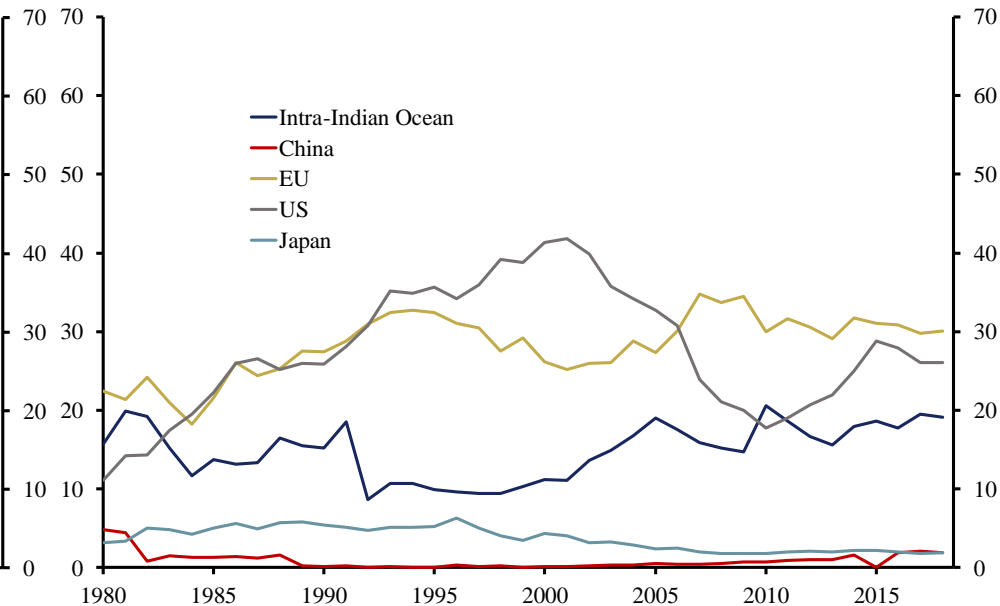
Sources: LKI calculations involving 28 IOR states, based on IMF Direction of Trade Statistics

Goods Exports by Partner (% of Total 1980-2018)

A: Indian Ocean

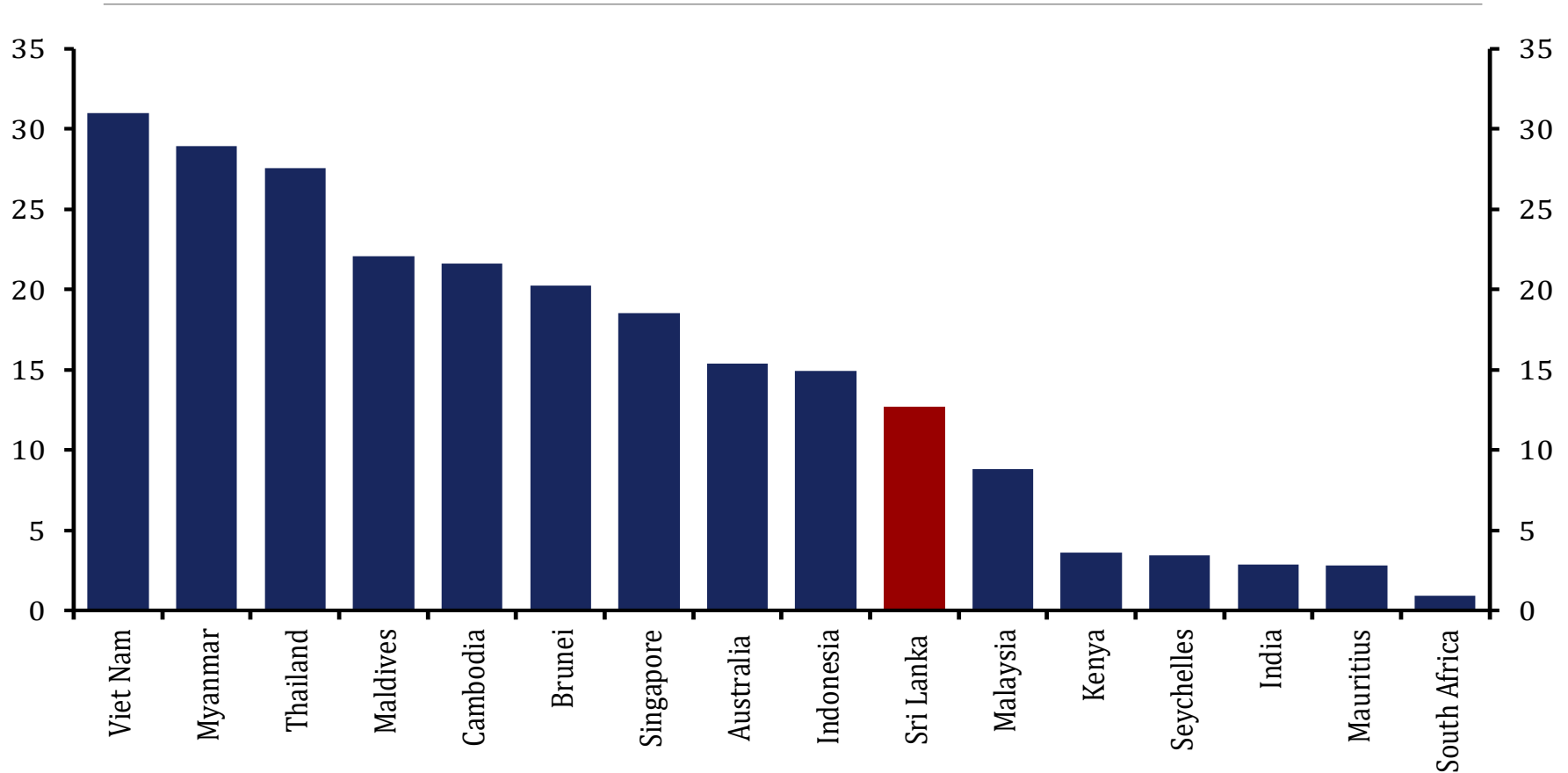


B: Sri Lanka



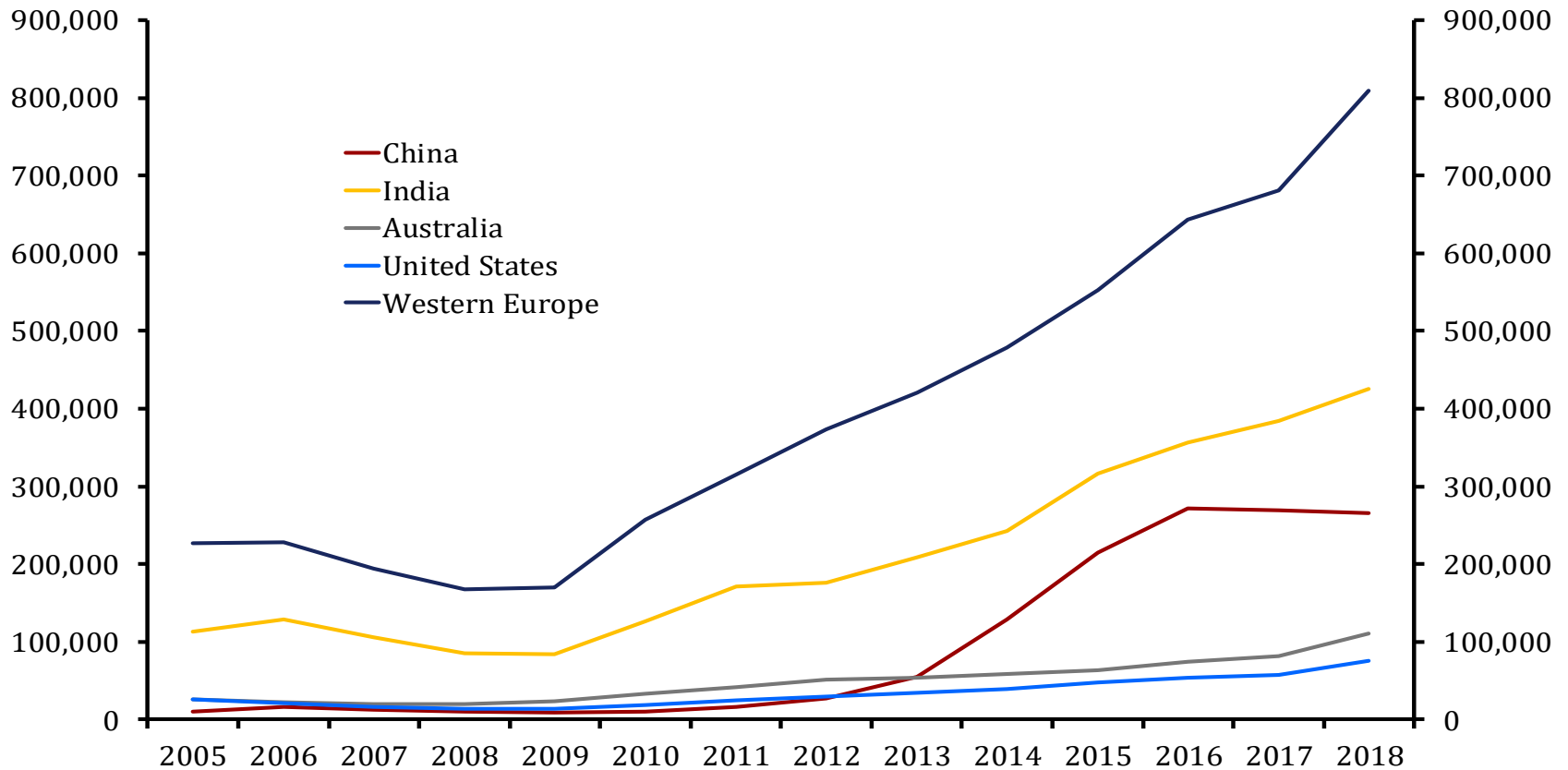
Sources: LKI calculations involving 28 IOR states, based on IMF Direction of Trade Statistics

Chinese Tourist Arrivals in Selected IOR States (% of Total Arrivals, 2017)



Source: Various national sources

Tourist Arrivals to Sri Lanka By Source (Thousands)

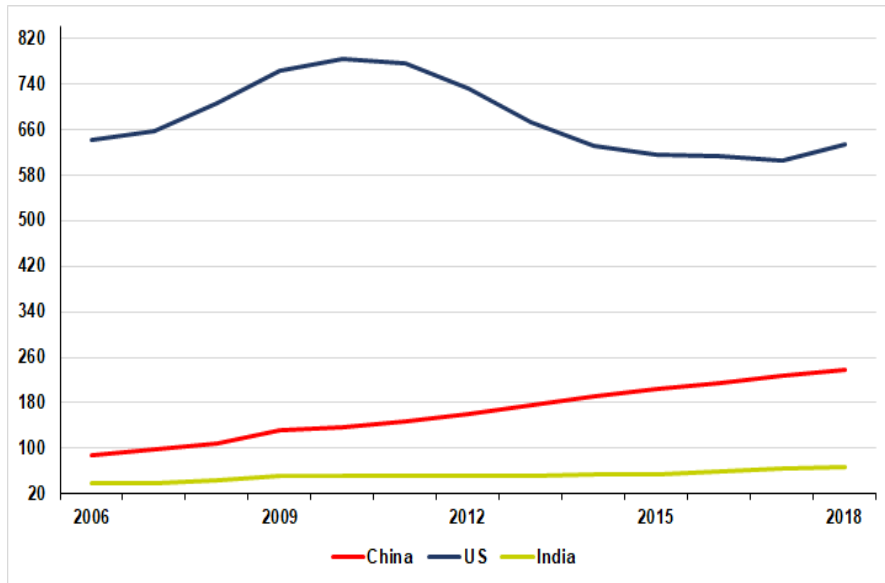


Source: Sri Lanka Tourism Development Authority

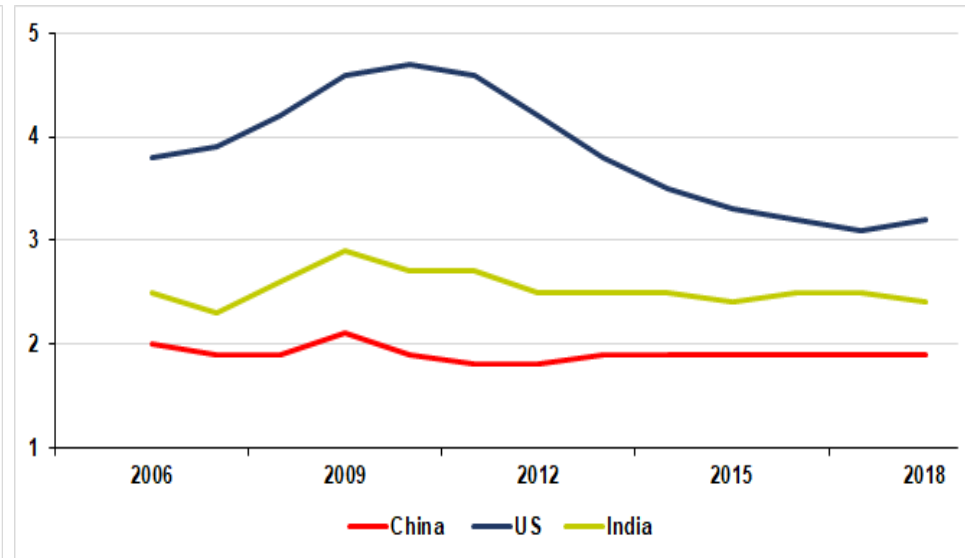
Navigating Military Trends in the IOR

Military Expenditure

A: US\$ Billions



B: % of GDP



Source: Stockholm Peace Research Institute (SIPRI) Military Expenditure Database

Naval Vessels Given to Sri Lanka (2004 - 2019)

Year	Gifted Country	Type of Vessel	Receiving Service
2004	US	<u>Medium Endurance Cutter</u>	Sri Lanka Navy
2014	Australia	<u>Two Bay-Class Patrol Boats</u>	Sri Lanka Navy
2015	India	<u>Offshore Patrol Vessel</u>	Sri Lanka Navy
2017		<u>Offshore Patrol Vessel</u>	Sri Lanka Coast Guard
2018	Japan	<u>30m Type Patrol Boat (new)</u>	Sri Lanka Coast Guard
		<u>Two Fast Patrol Vessels (new)</u>	Sri Lanka Coast Guard
2019	Australia	<u>Three Stabcraft vessels</u>	Sri Lanka Coast Guard
	US	<u>Hamilton Class Cutter</u>	Sri Lanka Navy
	China	<u>Type 053H2G Frigate</u> (handed over in Shanghai in June 2019)	Sri Lanka Navy

Source: LKI, drawn from various national sources

Sri Lanka's Responses to Increasing Militarization of IOR

1. Welcoming visits by naval ships from all nations
 - From 2008 to June 2019, 472 naval visits from over 25 nations: 96 from India, 74 from Japan and 39 from China
2. Developing its commercial ports and military readiness with a range of partners
 - E.g. Signed a MoU in 2019 with India and Japan to develop a terminal of Colombo port. Naval exercises with India and US
3. Pursuing a collective understanding of the challenges facing the IOR and ways forward
 - Track 1.5 conference on the future of the Indian Ocean in October 2018; possible ministerial conference in 2019

Takeaways

- ❑ Sri Lanka increasingly views the IOR as critical to its own future.
- ❑ China's commercial presence in the IOR has brought high *investment* from China, raising some valid concerns in Sri Lanka that should be addressed by national and multilateral policy measures.
- ❑ By contrast, there is significant potential to grow Sri Lanka's *trade and tourism* from China.
- ❑ Sri Lanka's main concern as to military presence is the *overall militarization* of the IOR.
- ❑ To contain risks of that militarization, Sri Lanka is engaging with various strategic partners and encouraging regional dialogue, in line with its non-aligned heritage.