



The Silk Road's Burden: Sri Lanka's Journey through Chinese Debt

Centre for Environmental Justice

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Cover Photo: Ocean filling for the Colombo port City.

List of Abbreviations

BOC	Bank of China
BRI	Belt and Road Initiative
CDB	China Development Bank
CMEC	China Machinery Engineering Corporation
Exim Bank	Export-Import Bank of China
ICBC	Industrial and Commercial Bank of China
IMF	International Monetary Fund
PRC	People's Republic of China

This report is based on research conducted by the Centre for Environmental Justice (CEJ), Sri Lanka, with financial support from Urgewald, Germany. The research is part of the Regional Infrastructure Monitoring Alliance (RIMA)'s efforts to monitor the social and environmental impacts of Chinese lending.

CEJ is a public interest environmental organisation established in 2004 with the vision of environmental justice for all.

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In May 2022, Sri Lanka declared bankruptcy, plunging the nation into a severe crisis that led citizens to take to the streets in protest. This wave of public dissent culminated in the ousting of Gotabaya Rajapaksa, the eighth President of the Socialist Democratic Republic of Sri Lanka.

At the time, the country's total debt was estimated at \$82 billion, with approximately 10% owed to China. A significant portion of these loans was tied to new infrastructure projects, many of which are considered part of the Belt and Road Initiative that began in 2008 in response to the economic crisis.

China-Sri Lanka historical relationship

The historical relationship with China and Sri Lanka dates back to the 5th Century with the arrival of Monk Fa Xian. There were sporadic visits from Chinese sailors and

travelers from China when traveling on the Maritime Silk Routes. This relationship was not merely limited to trade as there were reports of a conflict between the Chinese Admiral Zheng He and King Alakeshwara.

After gaining independence from Great Britain in 1948, Sri Lanka established formal diplomatic relations with China in 1957. Before formal diplomatic ties were established, Sri Lanka and China signed the Rubber-Rice Pact in 1952. Under this agreement, Sri Lanka provided rubber to China in exchange for rice, which was a strategic economic arrangement benefiting both nations during the Korean War and subsequent embargoes against China.

This period saw the beginning of strong bilateral ties as Sri Lanka aligned itself with China, particularly under Sirimavo Bandaranaike's administration, which sought to strengthen relationships with communist states. This relationship continued over the years with the two



Chinese and Indian built Infrastructure in Sri Lanka

interests place Sri Lanka in a delicate position, where it must navigate complex geopolitical dynamics to safeguard its sovereignty and national interests while leveraging its strategic location for economic and developmental benefits.

Geopolitics of developing China

As a nation with 1.4 billion people, China has dealt with its poverty by increasing its production and technological capacity. It has since developed surplus resources and the capacity to influence other developing nations, in the

countries hosting regular high level visits to each other resulting in a variety of agreements.^[1]

Since 1971, Sri Lanka has received grant assistance of \$883 million USD from the PRC to develop some landmark projects in Sri Lanka.

Since then, the PRC has provided loans of \$8,554 million USD to implement various development projects in Sri Lanka.

Due to their longstanding relationship, China played a crucial supportive role in global politics during Sri Lanka's three-decade-long civil war.

Sri Lanka as a strategic location

Sri Lanka's strategic location in the Indian Ocean makes it a focal point of geopolitical interest, as it sits at the crossroads of major maritime routes connecting Asia, Africa, and Europe. This has drawn the attention of global powers such as China, India, United States, Japan, Australia and Russia, each seeking to exert influence over the island nation. China's involvement, particularly through the Belt and Road Initiative, has raised concerns about debt dependency and potential loss of sovereignty, while India remains vigilant due to historical and security interests in the region. The United States, aiming to counterbalance China's growing influence, has also sought to strengthen its ties with Sri Lanka through diplomatic and military engagements. These competing

region, especially in Asia and Africa.

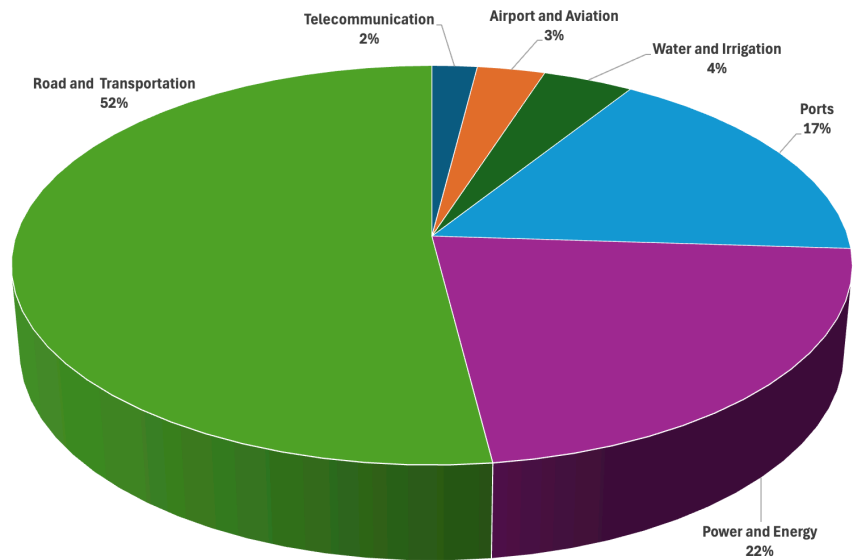
A significant global phenomenon in the field of information and technology has been occurred within China's rise in the field of geopolitics. China has advanced significantly in the field of infrastructure construction with its own labour force, deep sea exploration, and more etc. China has developed information technology, taking the lead globally in fields of telecommunication fields.

China's Belt and Road Initiative (BRI) includes a digital component known as the Digital Silk Road. This initiative aims to expand China's technological influence by investing in digital infrastructure projects in partner countries, such as building internet networks, laying undersea cables, and launching satellites. China maintains strict control over its cyberspace by blocking access to foreign websites and censoring domestic content.

China is using its technological capabilities to expand its influence globally, particularly in developing countries through initiatives like the Digital Silk Road. China aims to promote closer relations and gain strategic advantages in regions traditionally dominated by Western powers through providing infrastructure and technological assistance.

China's rise in the information and technology sectors has created competition with the West in areas such as 5G technology, artificial intelligence, and cybersecurity, with both sides vying for dominance.

China's extensive investments and infrastructure projects in Sri Lanka, notably through the Belt and Road Initiative (BRI), have significant geopolitical implications, especially concerning neighboring India. China's focus on strategic maritime locations like the Hambantota Port and Colombo Port City aims to enhance its influence in the Indian Ocean, which is a vital trade route connecting Asia, Africa, and Europe. This strategic positioning concerns India, which views the Indian Ocean as part of its sphere of influence and is wary of Chinese intentions, particularly regarding potential military uses of these infrastructure projects.



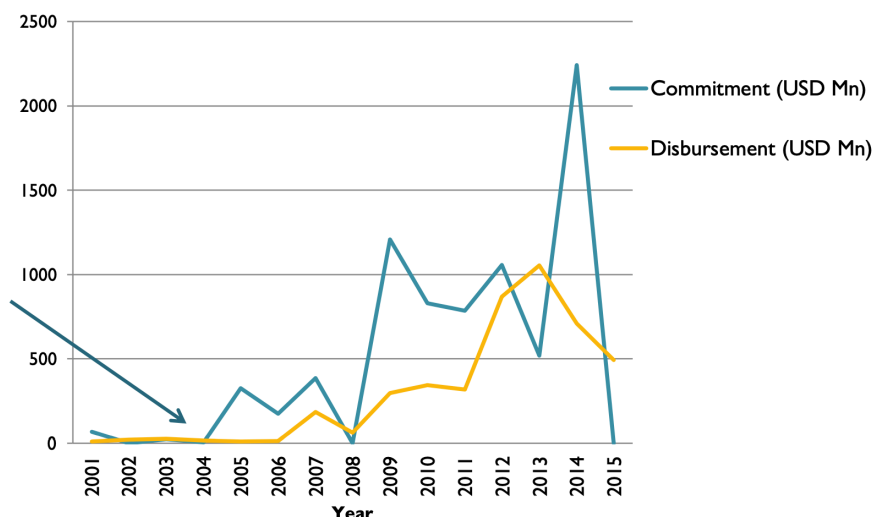
India sees China's growing presence in Sri Lanka as a challenge to its regional dominance. In response, India has sought to strengthen ties with Sri Lanka through economic aid, investments, and diplomatic efforts to counterbalance China's influence. Sri Lanka, caught between the interests of both powers, seeks to balance its relationships, leveraging investments from China for economic development while maintaining historical and geographical connections with India.

China's strategy in Sri Lanka also includes "debt diplomacy," where loans for large-scale infrastructure projects create economic dependencies. For example, Sri Lanka built Hambantota Port by destroying Karagan Levaya (Lagoon), an important bird habitat. However, Sri Lanka's inability to repay Chinese loans led to the lease of the Hambantota Port to a Chinese company for 99 years, illustrating the potential risks of financial reliance on China and giving China significant political leverage.

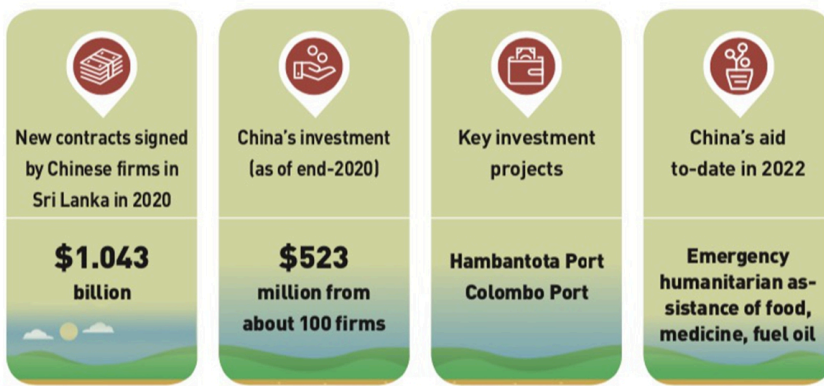
Beyond infrastructure, Chinese businesses in Sri Lanka are expanding into various sectors, including retail, manufacturing, tourism, and education. This diversification boosts employment, introduces new products and technologies, and strengthens economic ties between China and Sri Lanka, enhancing bilateral relations. However, this growing presence also affects regional dynamics, affecting organizations like the South Asian Association for Regional Cooperation (SAARC) and initiatives like the Quadrilateral Security Dialogue (Quad), where India and other nations are actively working to counter China's influence.

The geopolitical significance of China's engagement in Sri Lanka lies in its broader strategy to increase influence in the Indian Ocean region, altering traditional power dynamics and impacting regional security and economic stability. As China continues to expand through initiatives like the BRI, the implications for Sri Lanka and its

Annual Commitments and Disbursements

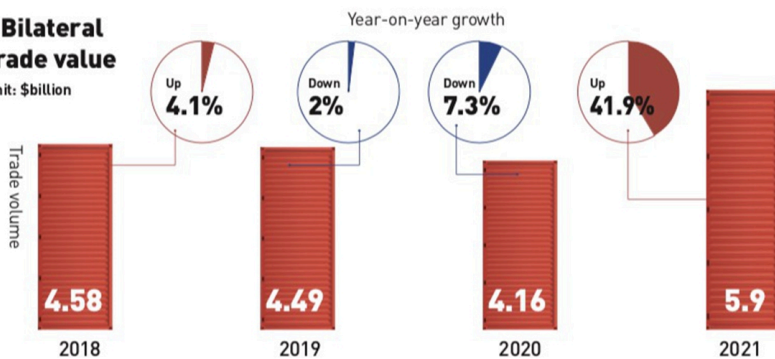


► China's economic ties with Sri Lanka



► Bilateral trade value

Unit: \$billion



Source: Chinese Embassy in Sri Lanka, Ministry of Commerce. Graphics: Xiong Xiaoying/GT

neighbors remain a crucial area for analysis and strategic consideration. Sri Lanka faces a complex situation, striving to benefit from both China and India while managing the shifting regional power relations and economic interdependencies.

Belt and Road Initiative

China's Belt and Road Initiative (BRI) is a transformative global development strategy aimed at improving connectivity, boosting trade, and stimulating economic growth across Asia, Africa, and Europe through extensive infrastructure development and investment. It was introduced by the Chinese government in 2013.

However, at the third BRI Symposium, President Xi Jinping emphasized the need for BRI projects to "increase the sense of gain from the recipient country's public." This clearly responded to criticism that some BRI projects were white elephants that only advanced China's geopolitical interests.

BRI comprises two main components: The Silk Road Economic Belt and the 21st Century Maritime Silk Road. The Silk Road Economic Belt focuses on linking China to Europe through Central Asia. It aims to develop overland routes and trade corridors across the Eurasian continent, drawing inspiration from the ancient Silk Road trading

routes. The 21st Century Maritime Silk Road seeks to connect China to Southeast Asia, South Asia, Africa, and Europe via sea routes. It emphasizes the development of port facilities and other maritime infrastructure to facilitate smoother and more efficient maritime trade.

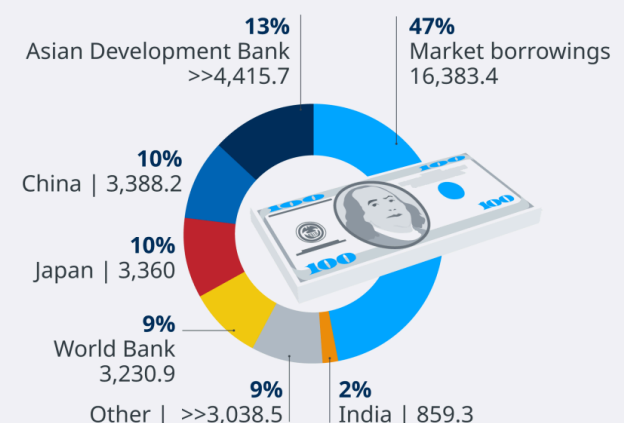
BRI aims to improve regional integration, promote trade enhancement, and stimulate economic growth. BRI seeks to achieve this by improving infrastructure (such as roads, railways, ports, and airports) to enhance connectivity between countries, thus reducing transportation costs, improving logistical efficiency to boost trade between China and other countries along the routes, and increasing market access to goods and services. It also aims to help underdeveloped regions gain better access to markets, resources, and technology, potentially leading to poverty reduction and economic diversification.

Countries within a particular region increase their level of cooperation through the formation of agreements and alliances via regional integration. This cooperation can encompass various components, including economic, political, and social dimensions. Objectives can include reducing trade barriers, enhancing economic stability, and fostering political unity.

The BRI includes investing in roads, energy projects, power plants, and renewable energy installations to ensure reliable energy supply and establishing industrial

Sri Lanka: Foreign debt summary

as of end April' 21 (by major lenders in million US dollars)



Source: Department of External Resources, Sri Lanka

and economic zones to attract investments and boost manufacturing capabilities.

However, BRI's large-scale infrastructure loans leads to unsustainable debt levels in recipient countries due to large-scale infrastructure loans. There are concerns about the environmental consequences of massive infrastructure projects, including habitat destruction and increased carbon emissions. The BRI also has sparked geopolitical tensions related to China's growing influence.

Source: China's planned Belt and Road Initiative <https://www.foxnews.com/world/what-is-chinas-belt-road-initiative>

China is a major large-scale lender to other countries. From 2000 to 2022, Chinese lenders extended 1,243 loans for an amount approximately of \$170.08 billion to African nations alone. Internationally, China's state owned creditors have provided a total of \$564 billion as loans and grants between 1949 and 2017. This figure trumps even the combined lending and grant amount of the World Bank, the IMF, and the Paris Club governments. In summary, while Chinese capital is presented as "long-term," Chinese loans have tended to be conditional, and intended to ensure repayment. It is notable that a major part of China's overseas lending has not been captured properly in standard measures of international debt.

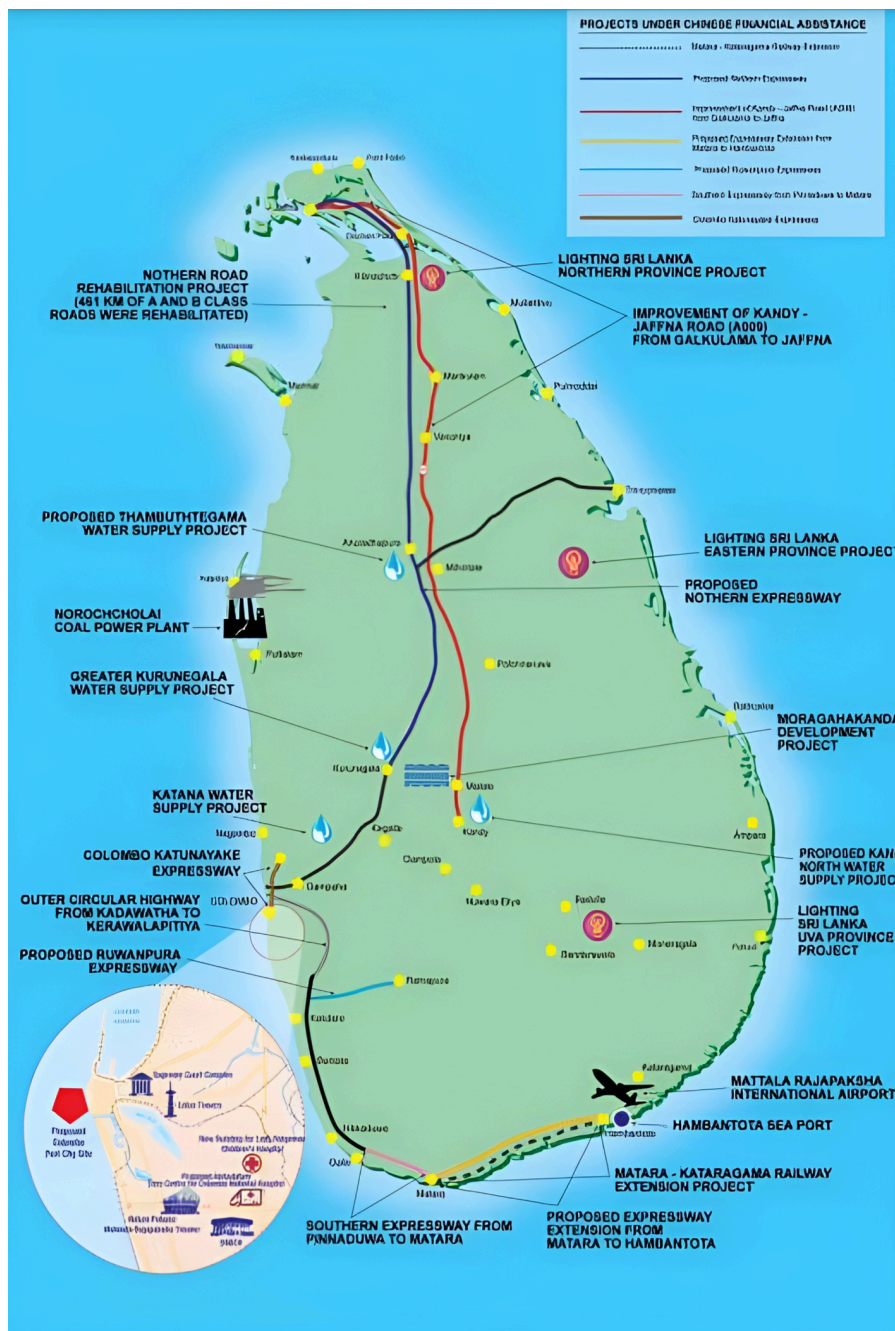
This 'unofficial' debt was estimated at more than \$225 billion US dollars by the end of 2016 and distorted various debt sustainability outlooks on recipient countries. Due to the expansion of the lending activities by Chinese banks, there exists high sovereign risks in most of the borrowing nations.

Company findings note increase in the number of the default events involving Chinese loans, which is higher than defaults on loans from private creditors.

Since 1971, the PRC has provided \$8,554 million of loans to implement various development projects in Sri Lanka. Of the total loan amount, \$6,334 million was extended by the Export-Import (Exim) Bank of China while the remaining \$1,267 million was extended by the China Development Bank Corporation.

The funds received from China have been used mainly for development projects in the sectors of roads and transport, power and energy, ports, irrigation and water supply, and airports and aviation. The active portfolio currently stands at 5.220 million USD. Major portions of this portfolio have been invested in the roads and transport sector followed by the power and energy sector.

China's loans to Sri Lanka have funded significant infrastructure



Chinese lending

Projects under Chinese Financial Assistance



Norochcholai Coal Power Plant

projects, including the Norochcholai Coal Power Plant, Colombo Port City, Hambantota Harbour, and various expressways. These loans, however, have also contributed to Sri Lanka's high debt levels, leading to complex debt restructuring negotiations and concerns about sovereignty and economic independence.

Some information demonstrates that China has emerged as the largest bilateral creditor to Sri Lanka with about 19%. The plan entails reducing the proportion of the external public debt to 6% of its value, or approximately \$7.4 billion.

These consist of loans been extended by giant Chinese policy banks such as the **China Exim Bank** and the **China Development Bank (CDB)**, whereby they have

financed different infrastructure development within the framework of the Belt and Road Initiative (BRI).

There has been a move to try and restructure these loans to enable firms to attain favorable repayments, but this has not been easy. Sri Lanka asked China for debt restructuring in 2014 and 2017 in order to lower the interest rates and longer maturity periods for repayment. These requests were not fully granted by Chinese lenders. Chinese loans increased Sri Lanka's debt burden and created more complicated debt restructuring measures along with sovereignty and economic self-reliance issues.

Several Chinese banks have been heavily involved in financing projects and investments in Sri Lanka, primarily under the Belt and Road Initiative. The key Chinese banks invested in Sri Lanka include:

Infrastructure Project	Loan amount	Year	Bank
Norochcholai Coal Power Plant	\$ 1.35 billion	2006	China Exim bank
Hambantota Port	\$ 372 million	2008	China Exim bank
Mattala International Airport	\$ 1.3 billion	2010	China Exim bank
Colombo-Katunayake Expressway	\$ 248 million	2009	China Exim bank
Colombo Harbour new terminal	\$ 927 million	2017	China Development Bank
Colombo Port City Phase I	\$ 1.4 billion	2012	China Development Bank
Hambantota Port Phase II SOT Project	\$ 390 million	2012	China Exim bank
Hambantota Industry Zone	\$ 200 million	2014	
Lotus Tower	\$ 104 million	2012	China Exim bank
Aruwakkaru Landfill	\$ 130 million	2014	AIIB
Yan Oya Irrigation Project	\$ 150 million	2015	

1. Export-Import Bank of China (Exim Bank of China): This bank is the most prominent Chinese lender in Sri Lanka, providing concessional and commercial loans for large infrastructure projects like the Hambantota Port, Mattala Rajapaksa International Airport, Colombo Port City, and the Yan Oya irrigation project.

2. China Development Bank (CDB): The CDB has also provided substantial funding for various



Hambantota Port

infrastructure and development projects in Sri Lanka, including highways, power plants, and urban development initiatives.

3. Industrial and Commercial Bank of China (ICBC):

ICBC has participated in financing several projects and is involved in trade and corporate banking activities within Sri Lanka.

4. Bank of China (BOC): The BOC has a presence in Sri Lanka, offering commercial banking services and participating in financing projects, particularly those related to trade and investment between the two countries.

These banks play a crucial role in supporting China's strategic investments in Sri Lanka, but their involvement has also raised concerns about debt sustainability and financial dependence on China.

Chinese lending for Sri Lanka

Since 2005, Sri Lanka has received multiple loans for several infrastructure projects. These include highways, harbours, industrial zones, waste management, and more. Some project details are given below. Most of the Chinese loans were processed under Mahinda Rajapaksa, who was elected in 2005. He established strong ties with China as a friendly government during the civil war in Sri Lanka

and as a source of funds to build infrastructure in the country.

Norochcholai Coal Power Plant

Sri Lanka's first coal power plant owned by the Ceylon Electricity Board was built with the aid of the Exim Bank of China. It is located on the northwestern coast and was undertaken by the China Machinery Engineering Corporation (CMEC). The total estimated cost of the project was \$1.35 billion. The contract for the project was signed in 2006 and the first phase of the power plant, 300 MW, was commissioned in 2011. It was a refurbished coal plant. The second completed phase added another 300 MW in 2014, and the third phase added another 300 MW, making the total power generated through the Norochcholai Coal Power Plant 900 MW. The first phase also included the construction of a 115 km transmission line that connected the power plant to the national grid through the Veyangoda substation. Although a 4.2 km long jetty was proposed, it was not constructed.

Though this has caused social and environmental harm, it produces a significant amount of energy, especially during the dry season. Around 2020, an additional capacity of 900 MW was proposed for the Norochcholai Coal Power Plant. The government of Sri Lanka abandoned that plan due to pressure from the citizens led by the environmental movement and the Catholic Church. This public pressure resulted in the government moving to 70% renewable energy by 2030, which was justified as a measure to address climate concerns.



Matara- Mattala Expressway, Hambantota

Hambantota Harbour

Hambantota Port was developed through funds obtained from the **China Exim Bank**. In 2017. Due to a very acute balance of payments situation, Sri Lanka was forced to sign an agreement to provide a Sri Lankan port to China Merchant Port Holdings on a leasehold basis for 99 years. This has been often described as a “debt trap” or “asset seizure.”

This project was constructed by destroying Karagan Levaya (Lagoon) which was an important migratory bird habitat. The proposal to develop an industrial port originated around 1994. Main work started in 2006. The Environmental Impact Assessment (EIA) was not adequate. Mahinda Rajapaksa decided to build this port as part of his dream plan to build a modern city in Hambantota. A number of Chinese projects were built in this area, including Mattala International Airport, to fulfill his dream.

Maththala International Airport

Mattala Rajapaksa International Airport, located in the Hambantota district of Sri Lanka, was inaugurated in 2013 amid much fanfare as a key development project intended to boost tourism and facilitate trade. The airport has struggled to achieve its intended goals, however, largely due to its remote location and lack of demand. It has remained largely underutilized since its opening. The

airport was financed through a \$209 million loan from the **Exim Bank of China**, which raised concerns about debt sustainability for Sri Lanka. As passenger traffic failed to meet projections, the financial burden of the loan became increasingly problematic.

This airport also met significant resistance from the environmental movement since it was developed in the middle of five wildlife parks. It completely destroyed the Mattala elephant corridor and created human-elephant conflict. As predicted, there was a bird collision with the first flight. Elephant movement can also be seen in the area day and night. The road connectivity from the Colombo-Matara highway was made with another Chinese loan. This road also became the most costly highway built in Sri Lanka.

Matara-Maththala Expressway

The Matara-Mattala Expressway in Sri Lanka, part of the Southern Expressway extension, has been criticized for being a costly infrastructure project that does not justify its economic returns. Despite the high expectations of boosting regional connectivity and stimulating economic growth in the Southern Province, the expressway has struggled to achieve sufficient traffic volumes and revenue generation. The expressway route, which extends to the Mattala Rajapaksa International Airport—often dubbed the “world’s emptiest airport” due to its underutilization—has failed to attract the expected



Yan Oya Reservoir, Padaviya, Sri Lanka

number of users, making it financially unsustainable. The low traffic flow, coupled with high maintenance costs and the burden of debt repayment from the project's financing, has raised serious questions about the cost-effectiveness of the expressway.

Additionally, the construction of the Matara-Mattala Expressway was financed largely through foreign loans, adding to Sri Lanka's already heavy debt burden. The cost per kilometer of the expressway was significantly higher than international benchmarks, with critics pointing to allegations of inflated costs, mismanagement, and lack of proper planning and feasibility studies. The economic rationale behind linking an underperforming airport to the broader road network has been widely questioned, as the anticipated economic benefits such as increased tourism, trade, and regional development have not materialized at the expected levels. As a result, the expressway serves as a stark example of the broader challenges faced by Sri Lanka in its pursuit of large-scale infrastructure projects, where the alignment between investment costs and economic benefits is not always clear, leading to concerns about fiscal sustainability.

Yan Oya project

China played a pivotal role in the Yan Oya project in Sri Lanka, a significant irrigation and water supply initiative aimed at enhancing agricultural productivity and water management in the Northern and Eastern provinces. The

project was funded through a concessional loan from the **Exim Bank of China** and executed by China CAMC Engineering Co., Ltd., a Chinese state-owned enterprise.

The Yan Oya project involved constructing a large dam and reservoir on the Yan Oya River, creating storage capacity to irrigate over 7,500 hectares of farmland and provide water to nearly 15,000 families. It also included the development of infrastructure such as canals, spillways, and hydroelectric facilities. The project was expected to boost the local economy, support agricultural activities, and improve the livelihoods of communities in the Anuradhapura and Trincomalee districts.

China's involvement in the Yan Oya project is part of its broader strategy of engaging in large-scale infrastructure development in Sri Lanka under the Belt and Road Initiative. While the project provided much-needed water resources and improved agricultural conditions, it also raised concerns about environmental impacts and increased dependence on Chinese financing and technology, highlighting the complex dynamics of China-Sri Lankan relations. The project destroyed more than 28 small tanks which were built during the kinds era and productive farmlands. Displaced communities still lack water and have not received adequate compensation.



Colombo Lotus Tower

Proposed Gin Ganga-Nilwala Ganga diversion

The Gin Ganga and Nilwala Ganga project in Sri Lanka was initiated as a flood protection and water management scheme aimed at mitigating the recurring flood risks in the Southern Province, particularly in the Galle and Matara districts. The project involves diverting excess water from the Gin Ganga and Nilwala Ganga rivers to reduce the impact of seasonal flooding that has historically affected agriculture, livelihoods, and infrastructure in the region. But the real motivation behind the project is to divert water to Hambantota, which is in the arid zone, and to supply water for those unsustainable projects including Mattala Airport and Hambantota Port.

The project has faced criticism over environmental concerns, including potential disruptions to local ecosystems and the displacement of communities. Moreover, the financing and implementation of the project have raised concerns about the economic sustainability and transparency of foreign-funded infrastructure initiatives.

As highlighted in the audit query, it was observed that the transfer of Sri Lankan government resources (valued at Rs. 4 billion) to an external foreign party and Chinese company for use over a period of about 18 months was tantamount to allowing the misuse of government resources. As a result, questions have been raised regarding the project. Although the funds transferred prior to the presidential election had been specifically

investigated by the appointed Financial Crimes Investigation Department (FCID), there has been no development or positive conclusion to those investigations as of yet.

Aruwakkaru Landfill

The Aruwakkalu Landfill project was built by the China Harbor Engineering Company Limited at the cost of \$130 million and is located in Sri Lanka's Puttalam District. It has been surrounded by controversy since its inception as a solution to Colombo's mounting solid waste crisis. Intended as a long-term answer following the collapse of the Meethotamulla Garbage Dump in 2017, the project has faced significant opposition due to environmental, social, and health concerns. Local communities and environmental activists argue that the landfill poses a severe threat to the region's delicate ecosystems, including its proximity to the Wilpattu National Park and the surrounding lagoon, which are home to diverse wildlife.

Additionally, there are concerns about the potential contamination of groundwater sources, air pollution, and the impact on the health and livelihoods of nearby residents. Mismanagement, lack of proper waste segregation, and allegations of corruption in the project's execution have fueled public distrust, making the Aruwakkalu Landfill a contentious issue.



Public protest against Colombo Port City

Lotus Tower

The Sri Lanka Lotus Tower, touted as South Asia's tallest tower and a symbol of the country's ambition, has been marred by controversies and challenges since its inception. Originally conceived as a multi-purpose telecommunication and leisure facility, the project faced significant cost overruns, delays, and allegations of corruption.

Funded through a Chinese loan provided by China Exim Bank, the tower became emblematic of Sri Lanka's broader issues with debt and dependency on foreign funding, particularly from China. Despite its grand opening in 2019, the tower has struggled to generate the anticipated revenue, with many facilities remaining underutilized. Additionally, questions around its economic viability and the transparency of the project's management have fueled public criticism, highlighting the broader risks associated with high-cost infrastructure projects in the country.

Despite the failures of the project, Sri Lankan citizens are supposed to pay \$103 million to China, making it a clear example of illegitimate debt.

Colombo Port City

The Colombo Port City project, a major Chinese-funded development on reclaimed land along Colombo's

coastline, has been a focal point of controversy in Sri Lanka. Promoted as a transformative economic zone designed to attract international investment and boost the country's economic profile, the project has been criticized for its environmental, economic, and sovereignty implications.

Environmentalists have raised concerns about the extensive land reclamation process, which they argue could disrupt marine ecosystems, coastal erosion patterns, and local fisheries. The project's Environmental Impact Assessments (EIAs) have been questioned, and critics argue that inadequate measures were taken to mitigate the long-term ecological damage. Furthermore, the project has sparked fears of potential flooding in the greater Colombo area due to changes in natural drainage patterns.

Beyond environmental concerns, the Colombo Port City has stirred geopolitical tensions and debates over national sovereignty. The project was financed and constructed by China Harbour Engineering Company, a state-owned enterprise, under a 99-year lease agreement. This has led to apprehension over Sri Lanka's increasing economic dependency on China. Critics argue that the project exemplifies China's "debt-trap diplomacy," with fears that Sri Lanka could lose control over a strategically significant part of its territory if debt repayment obligations are not met. Additionally, the legal and regulatory framework governing the Port City has sparked controversy, as the establishment of the Colombo Port City



Public protest against Colombo Port City

Economic Commission has been perceived as granting special administrative and legal privileges that operate independently of Sri Lankan law. This has created concerns about transparency, governance, and the potential erosion of the country's legal and regulatory standards.

The Colombo Port City project funded by China Development Bank thus stands at the intersection of environmental, economic, and geopolitical challenges, reflecting broader debates about the future of Sri Lanka's development.

Economic crisis in Sri Lanka

The Sri Lankan economic crisis is an ongoing situation that has caused significant hardship for the Country's people. This crisis has resulted in extreme inflation and shortages of vital supplies, driven by a combination of factors including a heavy debt burden, declining foreign exchange reserves, a weakening currency, high inflation, and political instability.

A major issue has been the country's heavy reliance on foreign borrowing to finance infrastructure projects and other development initiatives. This includes loans from China, India, and various private creditors such as BlackRock. Consequently, a substantial portion of government revenue is now directed toward servicing these debts.

Over the past decade, Sri Lanka has increasingly relied on loans from China to fund large-scale infrastructure projects, such as ports, highways, and power plants. While these investments aimed to boost economic growth and modernize infrastructure, they have also contributed to a mounting debt burden and financial vulnerabilities. Understanding the relationship between Chinese loans and the Sri Lankan economic crisis is essential to grasping the country's current challenges.

Chinese loans often come with favorable terms, such as low-interest rates and long repayment periods, making them an attractive financing source for Sri Lanka. However, the country lost control of the Hambantota Port due to its inability to repay the associated debt. This accumulation of debt has raised concerns about Sri Lanka's capacity to meet its obligations, particularly as foreign exchange reserves have dwindled and the currency has depreciated.

Furthermore, Chinese loans have faced criticism for their lack of transparency and accountability, leading to allegations of corruption and inefficiency in project implementation. This has fueled public discontent and eroded trust in the government's economic management. Many citizens believe that China's geopolitical interests in Sri Lanka outweigh its economic ones.

As Sri Lanka grapples with its economic crisis, the role of Chinese loans has come under increased scrutiny, with calls for greater transparency, accountability, and strategic



Launching of Colombo port city project

debt management. Balancing the need for infrastructure development with fiscal sustainability will be crucial for navigating the challenges posed by reliance on Chinese financing.

Since April 12, 2022, Sri Lanka has been in sovereign debt default. China is its largest bilateral creditor, accounting for about 19.6% of Sri Lanka's public external debt (as of 2021) through both concessional and commercial lending. A significant portion of this debt is linked to state-owned enterprises and a series of large infrastructure projects, including highways, an airport, and a port.

These investments have attracted the attention of other geopolitical players, such as India and the United States, who have increased their involvement in the region. For example, a recent solar power project on Delft Island, located between Sri Lanka and India, was initially developed by a Chinese company but ultimately awarded to India, reflecting rising political tensions.

One prominent Chinese infrastructure project that exemplifies the ongoing debt crisis is Mattala Rajapaksa International Airport, once dubbed "the world's emptiest airport" by the *New York Times* and labelled a "white elephant" investment.

The opacity of the loan conditions associated with these projects remains a key concern regarding Chinese financing. As the government allocates almost all of its

revenue to debt servicing, rising taxes and costs stemming from currency devaluation have brought increased scrutiny to the nature of the loans and projects accepted by the Sri Lankan government from China.

Public opposition to Chinese projects

Coastal infrastructure projects, particularly land reclamation initiatives like Colombo Port City, have significant effects on coastal dynamics. The alteration of natural coastlines, which serve as critical buffer zones against storm surges and sea-level rise, has exacerbated coastal erosion. Additionally, the destruction of marine ecosystems, including coral reefs and seagrass beds, has deprived local fishers of their livelihoods.

The implementation of these projects often leads to the displacement of communities. For example, the construction of Mattala Rajapaksa International Airport and Hambantota Harbour forced many families to relocate, disrupting their daily lives and economic activities. The resettlement process can be challenging, leaving displaced communities struggling with housing issues, inadequate educational opportunities for children, and insufficient medical care. Moreover, resettled individuals are now facing conflicts with elephants, further complicating the situation.

While Chinese funding has created some job opportunities for local people, it often includes the



Signing of Hambantota Port Concession Agreement

importation of labor from China, leading to tensions within local communities.

Although infrastructure projects are crucial for development, concerns remain regarding the equitable distribution of benefits. There is a risk that these projects may primarily advantage certain groups, exacerbating social inequalities. It is essential to ensure that marginalized and vulnerable populations also receive benefits to promote inclusive growth.

Upgrading infrastructure like ports and airports enhances Sri Lanka's global interconnectedness and supports economic growth. The Colombo Port City development project, in particular, aims to transform Sri Lanka into a key financial and commercial hub, with expectations of generating jobs in finance, tourism, and services once operational.

However, the increasing debt associated with these Chinese-funded initiatives presents a critical challenge. Sri Lanka has borrowed extensively from China to finance these projects, raising concerns about falling into a "borrowing hole." There is mounting public opposition to the high construction and maintenance costs that strain the country's finances and create an over-reliance on China, potentially undermining Sri Lanka's independence in decision-making and economic control.

While the immediate economic benefits of infrastructure projects are apparent, their long-term sustainability

remains a significant concern. Projects like Mattala Rajapaksa International Airport and Colombo Port City will only succeed if they generate sufficient revenue to cover costs and repay loans. Critics argue that, despite the increased debt, these projects have yet to deliver meaningful economic benefits.

Environmental, social, and economic impacts

Chinese-funded infrastructure projects play a significant role in Sri Lanka's development strategy, but they come with a range of environmental, social, and economic impacts that must be carefully considered.

Building large infrastructure projects necessitates substantial changes in land use, which can alter landscapes, disrupt habitats, and reduce biodiversity. For instance, the construction of Mattala Rajapaksa International Airport led to the destruction of extensive forested areas and elephant habitats, resulting in a decline in local wildlife and plant species. Furthermore, the ongoing land reclamation for Colombo Port City is impacting coastal and marine ecosystems, adversely affecting marine biodiversity. Local fishermen have lost their livelihoods during the sand excavation process and continue to suffer from negative effects such as coastal erosion, exacerbated by the large-scale sand extraction needed to fill a 269-hectare area of the ocean.



Dream design of Colombo Port City

Illegitimate debt

Debt incurred by unsustainable projects and associated with social and environmental costs is often considered illegitimate. A study by the Centre for Environmental Justice (CEJ) highlights several initiatives—such as Colombo Port City, Colombo Lotus Tower, the Gin Ganga-Nilwala Ganga Diversion, the Matara-Mattala Highway, and Mattala Airport—that have created unnecessary infrastructure with adverse socio-environmental impacts.

Chinese involvement in Sri Lanka extends beyond loan provision; they have also established businesses, such as sea cucumber farming in the Northern Province, which has led to disputes with local fishermen.

Although projects must undergo Environmental Impact Assessments (EIAs) as a mandatory legal requirement, some have been approved without adhering to this compliance.

Sri Lankan citizens struggle to hold accountable those responsible for the environmental and social damage caused by Chinese projects. The CEJ has made several attempts to seek legal redress regarding the Colombo Port City, a key component of the Belt and Road Initiative. Unfortunately, after six years, the court dismissed the case in the absence of CEJ representation, and they have yet to receive a copy of the ruling since 2020.

In a more positive development, the CEJ received a favorable ruling from the Right to Information Commission regarding a request for the tripartite agreement between China and Sri Lanka. However, China Harbour Corporation, the project company, subsequently filed a lawsuit against both the RTI Commission and CEJ in the Supreme Court, challenging this decision.

China's role on debt restructuring

During Sri Lanka's debt crisis, China played a complex role. As one of Sri Lanka's largest creditors, China provided significant loans for infrastructure projects under the Belt and Road Initiative. When Sri Lanka faced a severe economic downturn and struggled to meet its debt obligations, China initially resisted calls for debt relief or restructuring similar to those offered by other creditors. Instead, China offered additional loans and credit lines, which some critics viewed as a continuation of "debt-trap diplomacy."

However, under international and domestic pressure, China eventually agreed to restructure some of Sri Lanka's debt, offering extended repayment periods and reduced interest rates. Despite these measures, China's response was perceived as slower and less flexible compared to other international lenders, contributing to ongoing concerns about its financial influence in the region.

Conclusion

Chinese loans constitute approximately 10% of Sri Lanka's total debt, predominantly tied to controversial infrastructure projects initiated since 2005. While some highway projects have provided local benefits, many recent developments, such as the Central Expressway, have faced criticism due to their high costs. Concerns have been raised not only about the lack of transparency in the loan agreements but also about the social and environmental impacts of these projects. Critics argue that these initiatives capture strategically significant landscapes in the country, driven by geopolitical interests.

Certain large-scale projects, such as the Lotus Tower, have failed to deliver substantial benefits to the nation, contributing to illegitimate debt and a significant burden on the country. These projects often lack transparency, adequate environmental and social safeguards, and effective communication. Furthermore, the Chinese government's delayed debt restructuring has raised concerns about potential geopolitical motivations behind exacerbating Sri Lanka's debt crisis.

These challenges are exacerbated by poor national governance, influenced by the vested interests of political regimes and corrupt officials. To ensure that foreign lending truly benefits the populace, it is essential to improve transparency and the right to information, adopt good governance practices, encourage community participation, and uphold the country's legal frameworks.

Adhering to the Environmental Impact Assessment (EIA) procedures is crucial for all development projects. Both borrowers and lenders must respect safeguard policies, but Sri Lanka's EIA process is outdated and prone to corruption, failing to adequately protect social and environmental interests. Furthermore, the national planning process has proven flawed, often lacking

thorough feasibility studies, leading to unnecessary complications.

Chinese lending has raised questions about the underlying motivations of these projects—whether they are genuinely developmental or aimed at securing strategic territories for economic, security, and geopolitical purposes. This skepticism is fuelled by Sri Lanka's strategic location, positioned next to India and along a vital east-west shipping route.

Such geopolitical dynamics pose security challenges for Sri Lanka. Investments like the Hambantota Port and Colombo Port City are viewed as tactics to entrap the nation. Concurrently, the interests of India and the US in Trincomalee Harbour and Mannar, along with the proposed bridge connecting India and Sri Lanka, should also be evaluated through this lens.

Moving forward, it is imperative to remain vigilant about development in Sri Lanka, considering not only social and environmental impacts but also security and geopolitical ramifications.

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