

# Sri Lanka's Economic Crisis: The Chinese Model in Operation

Written by Jabin T Jacob

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<https://www.e-ir.info/2022/04/05/sri-lankas-economic-crisis-the-chinese-model-in-operation/>

JABIN T JACOB, APR 5 2022

The unrest created by the ongoing economic crisis in Sri Lanka has now resulted in the imposition of a political emergency over the island.[1] The causes for the crisis are many and China has been criticised regularly in recent years for being at least partially responsible for Sri Lanka's ballooning external debt and for the predatory behaviour that has followed such as its 99-year lease over the port of Hambantota and thousands of acres of agricultural land around it.[2] This article will, however, focus, not so much on the economic aspects of the China-Sri Lanka relationship as on the political behaviour and approaches that have come to increasingly underpin these aspects. Given the history of Indian involvement in Sri Lanka, greater concerns over India's influence than over Chinese influence are natural in the island nation.

India's multi-billion dollar support during the current crisis notwithstanding complaints have been raised over the lack of transparency in several major agreements the Sri Lankan government has signed of late with Indian government or private entities including for the development of the Trincomalee Oil Tank Farms, and for energy projects in the north and east of the country.[3] Similarly, members of the Sri Lankan opposition have criticised two maritime security pacts signed with India in March as "threats" to Sri Lanka's national security and sovereignty. A specific concern was even raised about a regional war with "India... controlling Sri Lankan waters and skies, while China controls the port in Hambantota".[4]

India has made no bones of the rivalry it perceives with China – a Chinese plan to develop a hybrid energy project in the Northern Province of Sri Lanka was scrapped, reportedly due to Indian objections[5] and at the Munich Security Conference in February 2022, Indian External Affairs Minister S. Jaishankar hinted loudly at the negative fallout of China's presence in Sri Lanka saying, "We have seen countries, including in our region, being saddled with large debts."[6]

### China's Responses to Criticism

China has always been quick to respond saying the Sri Lankan 'debt trap' was "a creation of the West"[7] and that India's "attempt to meddle [in] economic cooperation between China and its partners is doomed".[8] Of interest, here is the sophistication to the Chinese attack; the language and arguments used suggest multiple objectives at play here for China.

For one, there is a reminder of India's supposedly "failed attempt to attract manufacturers from China", an indicator that there is the larger context of China's own economic pressures – in the wake of the trade war with the US and the pandemic – under which it directs its criticism. For another, by saying India "cannot hijack the economic laws and the trend toward great economic integration and globalization",[9] with the implication that these are positive goods, the focus is now diverted to China's supposed support for these global trends. However, because they are global trends, the implication is also that the consequences – the fact that Chinese investments around the world are increasing, that China might end up as a large creditor, and that it will encash some IOUs – should also be understood as both natural and acceptable. Thus, one op-ed in Chinese-state owned media while noting Sri Lanka's outstanding debt to China at US\$4.5 billion manages to turn India's claims of a debt trap into a criticism of New Delhi for being

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“disrespectful” of the countries that took the loans and saying, “these nations don’t need India to make decisions for them”.<sup>[10]</sup>

However, China’s political interventions in Sri Lanka go beyond jousting directly or indirectly with the Indians. In February this year, the Communist Party of China’s International Department (CPC-ID) held a hybrid event with leaders of major Sri Lankan political parties to celebrate the 70<sup>th</sup> anniversary of the Rubber-Rice pact between China and Sri Lanka and the 65<sup>th</sup> anniversary of the establishment of formal diplomatic ties. While CPC General Secretary Xi Jinping was represented by CPC-ID head Song Tao, the Sri Lankan attendees covered the political spectrum on the island and included current Prime Minister and Sri Lanka People’s Front (SLPP) leader Mahinda Rajapaksa, and Freedom Party Chairman Maithripala Sirisena – both also former presidents of the country.<sup>[11]</sup>

The fact that the CPC engages in its own foreign policy separate from the Chinese state – even if there is coordination – indicates how the Chinese are trying to shock-proof the relationship and to create opportunities to reach out and influence away from normal diplomatic channels. While this is not entirely novel – Indian politicians too, have similar linkages at least in the immediate neighbourhood, the organization, sophistication, and scale of Chinese activities are significant and could, with time, leave India struggling to compete. Despite protestations of a policy of non-interference in the internal affairs of other countries, this is precisely the objective as evident from recent Chinese activity in Nepal, for example.<sup>[12]</sup>

## The Chinese Model

Equally notable, is the reference in Song’s speech to the CPC’s 20<sup>th</sup> National Congress later this year, and the specific highlighting of “the strong leadership of the Party Central Committee with Comrade Xi Jinping at the core” together with the claim that this would “unite and lead the Chinese people to create a better future for the betterment of the region and the world”.<sup>[13]</sup> If evidence were needed that the CPC is now actively and confidently promoting a Chinese model of political governance, this is it.

The Chinese model, simply put, is one in which a strongman declares that unity of the population and of national purpose are necessary to achieve the objectives of both national growth and prosperity and regional and global “betterment” and that he, his family and/or his political party are more dedicated to the task and more capable than anyone else of achieving such unity. While so far, this sounds like normal political rhetoric in many democracies, the Chinese model is unique for the CPC’s sense of exceptionalism and of ideological conflict with the liberal democratic order.<sup>[14]</sup> Translated to domestic politics, this means that internal consolidation is always considered unfinished business – there are always internal enemies to be crushed and external threats and interference to be countered. This then leads to a society and polity in constant churn and in turn, pressure on the leader or political party in charge to remain popular and to be perceived as strong and capable of taking “difficult” decisions. These might be stupid decisions without economic logic but ‘sticking with it’ is always sold as being necessary to achieve the ‘larger’ national interest and therefore, as the morally right thing to do; the pain caused to millions can be ignored as a necessary sacrifice.

Note for instance, the economic doldrums the Chinese economy itself faces from a series of heavy-handed political moves in recent years under CPC General Secretary Xi to return Chinese society and polity to the straight and narrow of Marxist orthodoxy. Attempts to bring the private sector to heel by cracking down on the vibrant tech sector and to address the country’s growing income inequalities by forcing corporates and individuals to pay heed to and contribute to what the Party calls “common prosperity” have dampened multiple drivers of growth.<sup>[15]</sup> Just like the Gotabaya Rajapaksa government’s sudden ban on chemical fertilisers and pesticides led to a slump in agricultural production and then, to food shortages, the Chinese government’s decision to clampdown on coal production as part of its carbon emissions-reduction campaign, led to massive power shortages across China in the middle of the winter of 2021.<sup>[16]</sup> Meanwhile, China’s strict zero-Covid policy sold as an epitome of the efficient Party-state in operation has today led to the total lock-down of Shanghai – one of the world’s largest cities and most important commercial centres – two years into a pandemic that appears to be slowing down in most parts of the world. While the approach ignores both epidemiological and social realities,<sup>[17]</sup> it is nevertheless an opportunity to test and flex its mechanisms for control over the population, never mind the chaos and misery it engenders.

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While the rise of the Rajapaksas and their domination of the levers of power in the current Sri Lankan government are a result also of objective political conditions in the country, the power of example and encouragement that the CPC provides to authoritarian rule centred on a strongman or a family is undeniable.

The CPC has, in fact, actively pushed for Sri Lanka to learn from Chinese experiences. At an online meeting between Li Zhanshu, CPC Politburo Standing Committee member and Chairman of the National People's Congress and the Sri Lankan Parliament Speaker Mahinda Yapa Abeywardena in September 2021, the former explicitly called for the two countries to deepen their exchange of experience in governance and to learn from each other in the areas of rule of law and economic development.[18] Similarly, when the Chinese ambassador to Colombo tries to make common cause with his hosts against "the interference of Western countries in the internal affairs of developing countries through the so-called human rights issues",[19] the implications are immediately evident.

The repeated references in the context of the 70<sup>th</sup> anniversary of the Sino-Sri Lankan Rubber-Rice Pact to the two countries "overcoming heavy resistance"[20], to "their national spirit in the fight against hegemony and power politics, and breaking the Cold War isolation imposed by the West"[21] makes clear that China expects Sri Lanka to take sides against the West and by extension, against liberal democratic modes of government.

At the same time, elements of the Chinese model of international relations include both a clear recognition of hierarchy in the international system and a simultaneous stress on reciprocity, elements that Sri Lanka first confronted when forced to enter into the 99-year lease on Hambantota. In the CPC ID statement, Xi pointed out that "The two countries support each other on issues involving each other's core interests, and Sino-Sri Lankan relations have become a model of friendly relations and mutually beneficial cooperation between large and small countries".[22] In other words, while "Sri Lankans also value equality and brotherhood",[23] for the Chinese, not only is the relationship transactional in practice[24] and especially on core political concerns, Sri Lanka must also know its place in global politics vis-à-vis China. Former Chinese Foreign Minister and currently a member of the CPC Politburo, Yang Jiechi's angry outburst at the ASEAN Regional Forum in 2010 saying, "China is a big country and you are small countries, and that is a fact",[25] should make it clear how Beijing judges the importance of countries. China has not hesitated, for instance, to target small countries such as Lithuania recently, on the latter's expanded relationship with Taiwan.[26] English-language Chinese documents and reportage tend to elide over these aspects – Xi's statement is softened, in an English-language report of the CPC-ID event, to "countries of different sizes"[27] – or to cover them up with such stock phrases as "win-win" or "community of common destiny".[28]

## Sri Lanka's Choice

If the Sri Lankan leadership has understood or grasped these aspects of Chinese foreign policy, it does not show. Consider Mahinda Rajapaksa's speech in July 2021 at the summit of several political parties from around the world hosted by the CPC to celebrate its 100<sup>th</sup> anniversary. More than an exercise in ignoring India it is also one of consciously praising the CPC model of governance and growth domestically and its approaches externally. He declares for instance, "Zhou Enlai brought the idea of non-aligned nations to the world," which apart from being a misinterpretation of Zhou's politics also completely side-lines India's first prime minister, Jawaharlal Nehru, one of the actual progenitors and active promoters of the concept during the Cold War. The Sri Lankan leader even chooses to use the forum to call both countries Buddhist[29] completely ignoring the irony of saying so to an avowedly atheist political party and one that has engaged in and innovated some of the most repressive measures to control various religions, including Buddhism.

It is this blind eye that then allows China itself to then ignore irony and exploit Sri Lanka's economic weaknesses to its own ends. On the occasion of Ramadan at the end of March for example, China's embassy in Sri Lanka donated food to 650 poor Muslim families in Colombo and used the occasion to both highlight the apparently "happy life of Chinese Muslims" as well as criticised Western media for false reports on the treatment of Muslims in China that it called an attempt "purely to smear and slander" China.[30]

As long as the attitudes of dominant sections of the Sri Lankan political class towards China remain one of seeing it as the lesser evil compared to India or to Western pressure on human rights, it will also continue to make political

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sense for these elements to cultivate China as a way of balancing against India and the West. But doing so leads to a downward spiral of a push-and-pull relationship between economic mismanagement and authoritarian rule – the actual Chinese model of development.

For Beijing, contending with rival powers across the world for an equal or greater share of influence is seen as necessary to underline the CPC's legitimacy at home and abroad. The costs to another country or indeed, to China's image, will not deter it from intervening in other countries, as long as the perception can be solidified that China can influence and be part of or drive the narrative. Sri Lanka's legacy of bad economic decisions that has led to the current economic crisis is, of course, primarily the fault of its leaders and government but the example of the Chinese Party-state and the illusion of choice that it offers as part of the unrelenting desire to draw Colombo out of its traditional relationship with India has also encouraged authoritarianism and reckless decision-making.

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