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# THE POST-INDEPENDENCE ECONOMIC MOMENTUM OF SRI-LANKA AND THE IMPACT OF BRI PROJECTS TO THE CONTEMPORARY ECONOMY.



## A case study of Sr-Lankan economic factors along with other OECD countries and an evaluation of Chinese Belt and Road (BRI Initiatives from 2006 to 2015).

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## Abstract

This Paper has initially explored the economic journey of Sri Lanka Specially after receiving the independence in 1948 officially. It has also tried to understand the economic pathway that was implemented during 1950 to year 2005 and how the economic parameters and supporting activities have contributed to overcome the situation. Furthermore, the author has provided secondary data to prove the strategic decisions and implementations that were taken by the political leaderships.

Secondly, this paper explores the BRI strategies, the impact on other Belt & Road Initiative activities (BRI) participating economies and some of the implications for Sri Lanka.

The study has attempt to fill the research gap Chinese outbound BRI investments and benefits and efficiency of the projects. It has touched base multiple investments during year 2000 to 2015 including economic factors, demographic factors and environmental concerns. This paper also explores Sri Lankan debt situation prior and post BRI projects which has been burden for Sri Lankan government today. However, the researcher is trying his level best to compare with pear countries in order to analysis the figures with time series analysis.

The case has been built mainly based on secondary data, during 1948 to 2015. However, there are only few BRI projects have been completed since year 2006 and research evaluations has been based on only on those completed projects. Therefore, this paper is

welcoming the novel researchers to study the case extensively and extend the case further and pay the efforts to bridge the gap.

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## 1. Introduction

The global economy showed a sluggish movement during World War I (1914 - 1918) and World War II (from 1939 – 1945). The Mercantilism and Nationalism concepts exacerbated the situation amid world hegemonic leadership shifted from Great Britain to United states of America.

The United Nations Monetary and Financial Conference, commonly known as the *Bretton Woods* Conference, took place in July 1 to 22, 1944 in *Bretton Woods*, New Hampshire, with 44 delegates to agree upon a series of new rules and to overcome the economic repulse. The newly elected hegemonic Leader, United States of America initiated the discussion and it became the turning point of the world economy and leads to multilateralism. As a result, world organizations such as International Monitory Fund (IMF), Global Agreement on Trade and Tariff (GATT), and World Trade Organization (WTO) were formed to supervise the world economy.

Sri Lanka got its' official independence from the Grate Britain in 4$^{th}$ of February 1948. It had a very strong and prosperous economy among Asian countries. The rich literature on Sri Lankan economic development highlights the sense of optimism at the time of independence in 1948 (Jennings 1948; World Bank 1953; Hicks 1958; Wriggins 1960, 2011; De Silva 1981). The country had the correct and essential ingredients for rapid economic growth, which is not with many other Asian countries. The strong foreign exchange reserves, stable political system, the literacy rate, the strategic location of the Indian ocean, PPP rate, efficient administration, independent judiciary and an active civil society, high level British educational system gave evidence to show a rapid growth in the Asian region soon. Sri Lanka had very low inflation until about the early 1970s, with the annual rate measured by the consumer price index (CPI) varying in the range of 1% to 4% (Athukorala and Jayasuriya 1994).

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Table – 1: Gross National Product per Capita of Sri Lanka and Selected Asian Countries as a Percent of that the United States, 1950 and 1958

| Country | 1950 | 1958 |
|---|---|---|
| India | 7.1 | 7.3 |
| Indonesia | — | 5.8[b] |
| Korea, Republic of | 7.6 | 8.5 |
| Malaysia | 14.6 | 15.3 |
| Pakistan | 9.0 | 6.4 |
| Philippines | 10.3 | 11.5 |
| **Sri Lanka** | **11.4** | **12.6** |
| Thailand | 9.6 | 9.5 |

— = not available.
[a] Purchasing power parity adjusted.
[b] Figure is for 1960.
Source: Kravis, Heston, and Summers (1982).

At the time of Independence, Sri Lanka's per Capita income was 11.4% against USA. However, from 1960 onwards Sri Lanka per Capita income showed a decrease until 1990. It was 65% of Indonesia's, 41% of Thailand, 23% of Malaysia's, 12% Republic of Korea's and 5% of Singapore's. (Prema-chandra athukorala, edimon ginting, Hal hill, and Utsav Kumar, 2017).

The former Singapore Prime Minister Lee Kuan Yew has stated that,"Ceylon was Britain's model Commonwealth country. It had been carefully prepared for independence. After the war, it was a good middle-size country with fewer than 10 million people. It had a relatively good standard of education, with 2 universities of high quality, ... a civil service largely of locals, and experience in representative government starting with city council elections in the 1930s. When Ceylon gained independence in 1948, it was the classic model of gradual evolution to independence." (Lee 2000; 461-2, Prema-chandra athukorala, edimon ginting, Hal hill, and Utsav Kumar, 2017).

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### 1.1. Sri-Lanka Economic Development -Post-independence (1950 to 2010)

It seems that Sri Lanka has lost to find its' own pathway of development throughout 6 decades. During the first decade of Independence in 1948 Sri Lanka continued with liberal trade and foreign direct investments policy in the region. From the late 1950s a combination of changes in political leadership growing balance of payment problems included a policy shift towards state imports substitute strategy. In 1972 import restrictions activities were implemented initially to address payment difficulties. Later shifted to imports substitute industry policies.

By the mid-1970s, the Sri Lankan economy had become one of the most inward-oriented in the world outside the Communist Bloc. As a result of the marginalization of the private sector in the economy under the dirigiste policy regime, coupled with rampant inefficiency of public enterprises, the annual average growth rate of per capita gross national product declined from 2.8% in the 1960s to a mere 0.7% during 1970–1977 (Athukorala and Jayasuriya 1994)

As reaction to the dismal economic outcome of the inward-looking policy, in 1977 Sri Lanka embarked on an expensive economic linearization process that mark decision break with decades of protectionist policies (Snodgrass 1998; Rajapatirana 1988; Athukorala and Rajapatirana 2000).

During 1977/1979 the first round of policy reforms was carried out,

- Significant Trade policy reforms
- Focus on export oriented FDIs under and attractive Free Trade Zone (FTZ)
- Instead of fixed/multiple exchange rate and introduce floating exchange rate.
- Introduced an open economy and encourage private sector to contribute for the economy.

The above policy reforms were able to reap benefits despite the civil war conflict in early 1980s. It created a situation that North and East lands and population discontinued from the development process. Further, long term FDI projects were seriously hampered the guerrilla attack of terrorist which targeted economic centers of the country.

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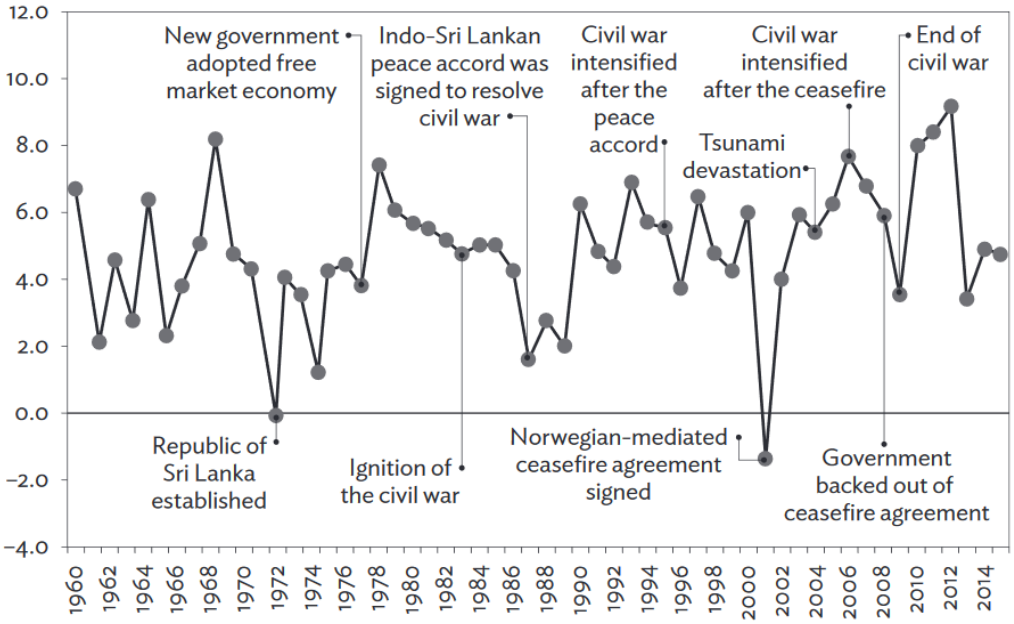
Therefore, the stipulated benefits of the reforms process were delayed and blocked over 3 decays. (1980 – 2010). During 1990 – 2009 Sri Lanka faced to unexpected economic blunders such as 2008 global recession, post Tsunami effect, 1997- 1998 Asian finance crisis etc. In 2009 Sri Lankan government was able to end the civil war and removed the main obstacle of the development process.

Figure 1: Growth of Sri Lanka's Gross Domestic Product, 1960 – 2015 (%)




Source: Estimates based on data from CBSL (2016a).

As per the Attachment 1 the Chinese BRI investment summary has been indicated along with expected benefits. Most of FDIs and loan facilities have been granted for Sri Lankan government under different interest rates for different periods including various terms and conditions for each project.

It is important to identify the direct benefits and the indirect benefits of the BRI Projects up to 2020. Various articles and researches have been done on BRI projects and critically evaluated its economic and political benefits by different reaches in different countries.

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However, there is no proper research done on the impact of BRI projects to the Sri Lankan economy. The Researcher would further consider Chinese BRI project in Sri Lanka as the independent variable and impact to the Sri Lankan economy will be the dependent variable in this research.

## 2. Chinese Belt and Road initiative (BRI) in the global trade.

As per the concept of President Xi Jin Ping, the BRI project was launched in 2013, the biggest ever economic and infrastructure project by China. The BRI initiatives consists of two parts which is the Silk Economic Belt and the Maritime Road. The Project could be categorized as infrastructure connectivity projects, finance interference project, policy system projects and unhindered trade. BRI investment projects are estimated to add over USD 1trillion of outward funding for foreign infrastructure over the 10-year period from 2017. Most of the Chinese funding for these projects will actually come from state-directed development and commercial banks. China is also supporting a multilateral approach to investment including MDBs and private-public partnerships (Xi, J., 2017a, page 5). As per the plan, 4.6 Billion combined population of all countries involved in BRI which is 61% of the world population, US$ 29 Trillion combined GDP of all countries involved, expected trade between China and BRI countries around 6 Trillion (2014 – 2017). The total project cost estimated as US$ 26 Trillion where China has pledged US$ 1 Trillion. (https://chinapower.csis.org/china-belt-and-road-initiative/)

The president Xi Jin Ping stated that: “China will actively promote international co-operation through the Belt and Road Initiative. In doing so, we hope to achieve policy, infrastructure, trade, financial, and people-to-people connectivity and thus build a new platform for international co-operation to create new drivers of shared development” (Xi,J., 2017b, page 61).

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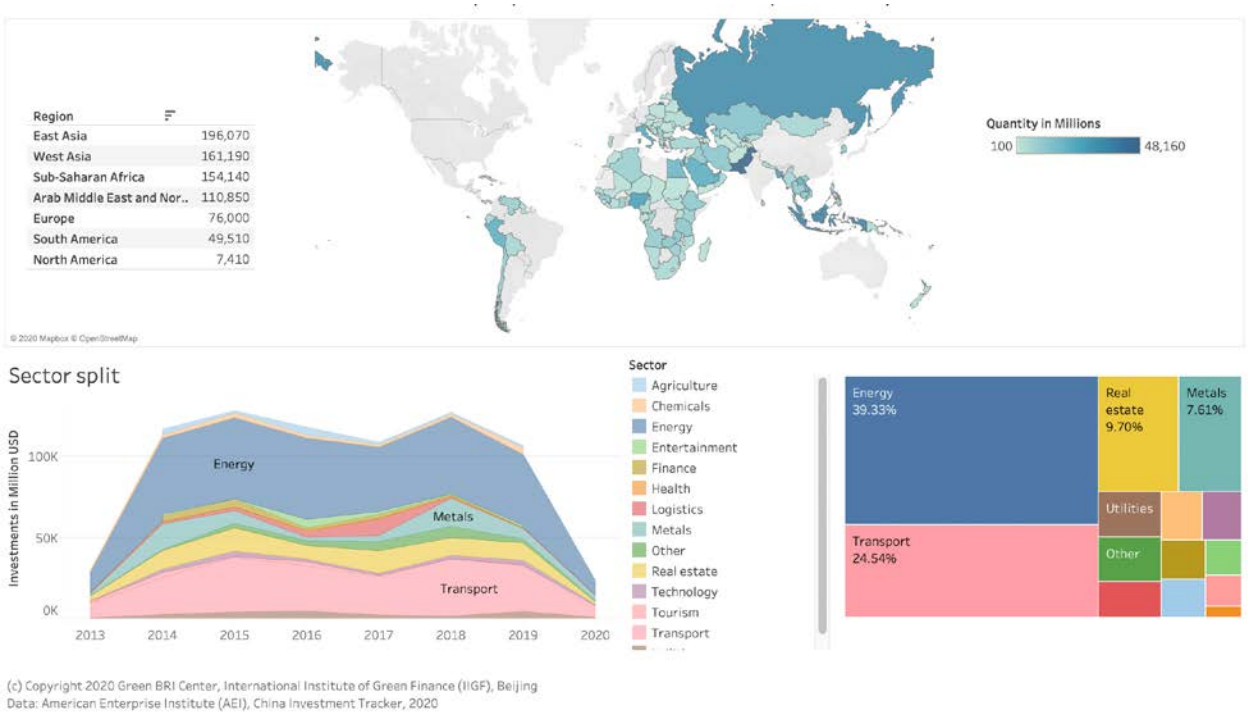
Figure 2: Chinese investments in Belt and Road Initiative (BRI) Countries 2013-H1 2020 (million USD)






As per the BRI plan there are 40 countries in sub-Africa, 18 countries from Europe union, 16 countries from Central Asia 25 countries from east Asia and Pacific, 17 countries from Middle East and North Africa, 18 countries from Latin America and Caribbean, 6 countries from South East Asia.

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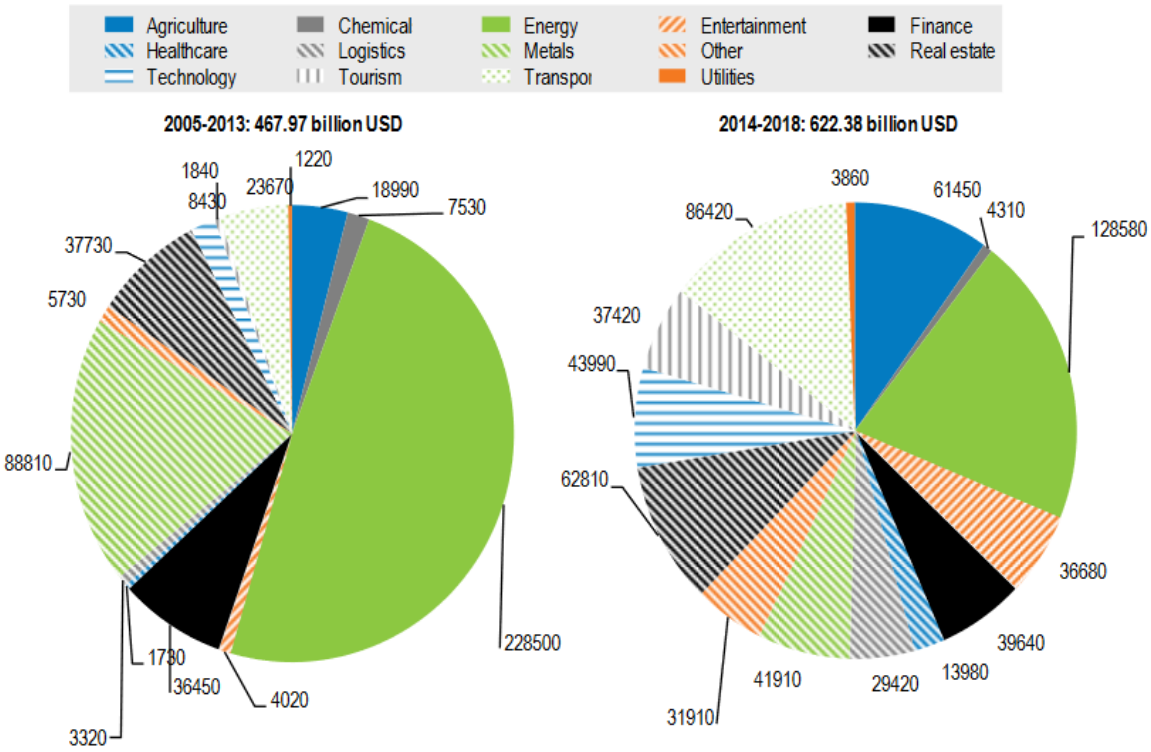
Figure 3: Chinese investment by sector in the global economy, cumulative notional amount expressed in USD million, 2005-2013 versus 2014-2018




*Note:* 2018 data are to end-June.
*Source*: American Enterprise Institute (AEI), China Global Investment Tracker Database. It includes all investments of USD 100 million or greater. Ministry of Commerce, Republic of China (MoFCOM) data totals are around 10% higher for the same period due to the inclusion of small investments.

StatLink http://dx.doi.org/10.1787/888933786439

Source: OECD business and finance outlook 2018 ©OECD 2018

The composition of outward corporate investment has changed in recent years in line with China's changing economic priorities. Figure 8 shows the USD1090.4 billion foreign company investments broken down into the main industrial sectors and two sub-periods: 2005-2013, and the shorter, more recent 2014-2017 period. Prior to 2014, half of the USD 468billionwas in the energy sector and USD88.8billionwas in metals (together around 68% of the total). Real Estate at USD 38.3billionand Finance at USD37.7 billion (mainly due to considerable investments in advanced-economy banks around 2008) were the third and fourth most important investments in the earlier nine-year period.

In the period 2015-2018 the amount of investment is larger than in the preceding nine years, and its composition has shifted away from energy, metals and finance, towards a much more diversified set of industries. (OECD BUSINESS AND FINANCE OUTLOOK 2018 ©OECD 2018)

### 2.1. Meeting Sri Lanka's infrastructure investment gap with Chinese BRI/Foreign Direct investments

There was a vague attraction for Foreign Direct Investment (FDI) until 2011, even though Sri Lankan government end up the three decays of civil war in 2009. The Sri Lankan economy was adversely affected by the surge in world oil and food prices during 2007–2008 and the global financial crisis that followed. Despite these external shocks, and the intensification of the civil war in its final stage, the economy expanded by an annual average rate of 6.1% during the second half of that decade. The first 3 years following the end of the civil conflict recorded one of the economy's strongest growth rates (8.7% during 2010–2012) during the entire post-independence period. However, the growth was driven largely by massive infrastructure development projects funded by foreign borrowing (mainly from the People's Republic of China), while recovery of economic activities in the war-affected Northern and Eastern provinces also played a role. The main drivers of growth have been the non-tradable sectors (construction, transport, utilities, trade, and other services), reflecting the role of the major public-sector infrastructure development projects. During the next 2 years, the average growth rate dropped to 4.1%, attesting to the unsustainability of the debt-driven growth (Athukorala and Jayasuriya 2015; Kelegama 2016; Rajapatirana 2016).

However, a clear difference can be seen during 2011- 2015 on FDIs and majority of the projects came from China. It was 15.15% contribution during 2011-2015 with the investment US$ 990.

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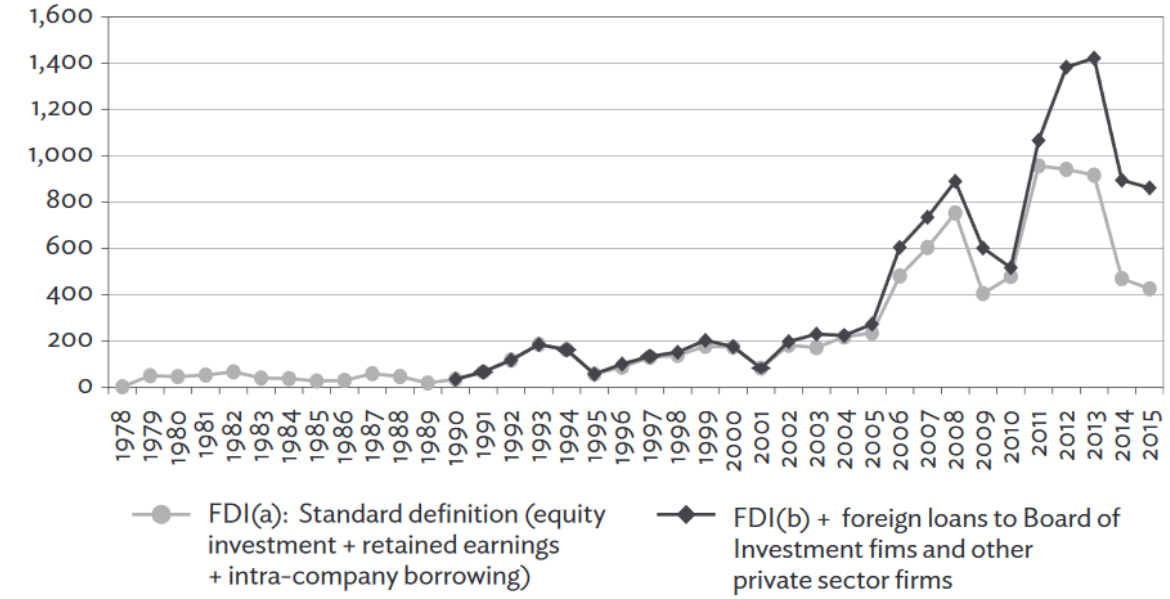
Figure 4: Foreign Direct Investment in Sri Lanka (USD million)




FDI = foreign direct investment.
Source: CBSL (2015), Special Statistical Appendix.



The above chart clearly depicts the growth of FDIs during 2010 to 2015. The outbreak of civil war has hampered the FDI inflow until 1990s. However, there was a slight growth during 1990s to 2005 despite two hiccups owing to privatization policy implemented by different governments.

Scope of the BRI Investment

- Transport and other infrastructure projects

  Example: Southern Railway, Mattala Airport, Hambantota Port, Express way
- Urban developments

  Example: Colombo port city
- Infrastructure and communication

  Example: Lotus Tower
- Energy and extractives

  Example: Noricholi power plant

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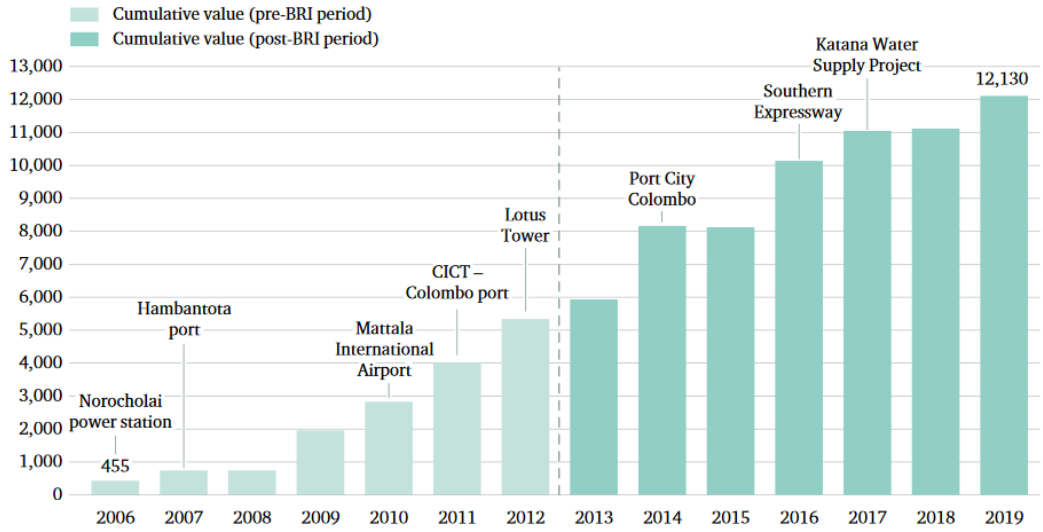
As per the scope of the BRI projects in Sri-Lanka, it is evident that country has mainly focused on infrastructure development and to improve quality of the existing infrastructure facilities. It is presumed that Chinese infrastructure investments commenced in Sri-Lanka in 1970s when Mrs. Bandaranayeka (Pri-minister Sri-Lanka,1972-1978) negotiated for outright grant for Convention Center. The relationship was continuing in 20th century with more commercial manner under loans and foreign direct investments. The most of infrastructure projected was started during president Mahinda Rajapaksa ruling period (2005 -2015). The infrastructure projects can be named as Norocholai Coal-Fire power station (2006), Hambanthota Port (2007), Mattala International Airport (2010), Colombo International Terminal at Colombo Port (2011) and Lotus Tower (2012) and Sothern expressway (2016).

Figure 5: Value of Chinese development finance to Sri Lanka (USD million)




Source: Calculations based on data provided by the Central Bank of Sri Lanka, Department of External Resources, Ministry of Finance, Sri Lanka; Board of Investments, Sri Lanka, and various interviews with key persons.
Note: The chart shows committed funds only up to July 2019.

(Chathem House,Ganeshan Wignaraja, Ganeshan Wignaraja, Dinusha Panditaratne, Pabasara Kannangara and Divya Hundlani ,2020)

As a result of the above BRI involvements, the quality of the Sri-Lankan infrastructure rose-up. However, in comparison with other emerging countries Sri-Lanka has not been able to meet those standards yet. Moreover, Sri Lanka has been able to upgrade the position for 61 out of 141 countries on comprehensive set of indicators to rank overall performance of infrastructure conducted by The World Economic Forum's Global competitiveness report 2019. Sri Lanka is way behind the parameters such as air connectivity and efficiency of sea airport facilities.

Table 2: Quality of infrastructure, 2019

| | Overall infrastructure rank | Quality of roads | Efficiency of train services | Efficiency of air transport services | Air connectivity | Efficiency of seaport services | Electricity supply quality |
|---|---|---|---|---|---|---|---|
| China | 36 | 45 | 24 | 66 | 2 | 52 | 18 |
| Malaysia | 35 | 19 | 13 | 25 | 20 | 19 | 38 |
| Thailand | 71 | 55 | 75 | 48 | 9 | 73 | 31 |
| **Sri Lanka** | **61** | **76** | **49** | **72** | **59** | **68** | **39** |
| Vietnam | 77 | 103 | 54 | 103 | 22 | 83 | 62 |
| Pakistan | 105 | 67 | 47 | 93 | 41 | 70 | 99 |

Source: WEF, Global Competitiveness Report 2019.
Note: Rank out of 141. Quality of roads, efficiency of train services, efficiency of air transport services and seaport services are derived from an opinion survey; air connectivity represents the IATA airport connectivity indicator, which measures the degree of integration of a country within the global air transport network; electricity supply quality is measured using electric power transmission and distribution losses as a percentage of domestic supply.

As per the world Bank report in 2014, Sri Lanka requires US $36 billion (estimated) to meet the infrastructure gap which is 40.5% of 2018 GDP. Chinese infrastructure investment alone is insufficient to close Sri Lanka's infrastructure gap. Cumulative Chinese infrastructure investment commitments, since 2006, amount to approximately 33 per cent of the estimated figure needed.6 Sri Lanka faces the difficult task of raising significant amounts of additional finance from other sources (international capital markets, general taxation and other donors) for its unmet infrastructure needs. (Ganeshan Wignaraja, Dinusha Panditaratne, Pabasara Kannangara and Divya Hundlani, Asia-Pacific Programme, March 2020)

### 2.2. The Main BRI projects in Sri-Lanka and expected economic benefits of Chinese investments

The paper has tried to explain the stipulated benefits that had been extracts from the BRI projects. The table 2 has mentioned brief summary of the benefits of each project. However, Author has touched only major BRI projects with available data, leaving other projects to criticize in future.

The southern expressway is one of major projects that was under taken by china. One way to assess the expected economic benefits of Chinese infrastructure investments is to look at the effects of specific projects on Sri Lanka's infrastructure development. Table 2 provides details of major Chinese projects including financing, actors and expected economic benefits. Roads and expressways are the largest subsector for Chinese investment in Sri Lanka. Since 2009, investment from China has built an estimated 116.1 km or 68 per cent of the length of all expressways in Sri Lanka. Three major expressway projects – the Southern Expressway, the Colombo–Katunayake Expressway, and the Colombo Outer Circular Highway – have benefited from this investment. These infrastructure projects have significantly contributed to improving national road connectivity, enhancing road safety and reducing journey times. These investments have the potential to help Sri Lanka attain the same quality of roads seen in other upper-middle-income economies like Malaysia. Roads and expressways are the largest subsector for Chinese investment in Sri Lanka. Since 2009, investment from China has built an estimated 116.1 km or 68 per cent of the length of all expressways in Sri Lanka. For example, the 126-km Southern Expressway, linking Colombo with the major cities of Galle and Matara, has opened up southern Sri Lanka, halved journey times from Colombo to Galle to 1.5 hours, and improved road safety. Four loans from the Export-Import Bank of China (EXIM Bank China) totaling $1.6 billion between 2014 and 2017 supplemented start-up loans that the project received in the early 2000s from the Asian Development Bank (ADB) and the Japan Bank.

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The first ever Coal Fire power station was established with a 900-megawatt (MW) contribution for the main electricity line. The reconstruction work is carried out by CMEC, while the EXIM Bank of the Republic of China provides the financing. Non-renewable energy generation is the third-largest sector for Chinese investment in Sri Lanka. In the early 2000s, Sri Lanka suffered from unreliable electricity supply and periodic power cuts that hampered the economy. A temporary solution of commissioning 10 diesel power plants did little to alleviate the electricity supply problem and exacerbated the high dependence on imported diesel fuel and high electricity prices. The Norocholai power station is now the largest power station in the country and a significant contributor to the country's electricity supply. The power plant made up 31.1 per cent of the total installed capacity of Ceylon Electricity Board-owned power plants and accounted for 33 per cent of total Sri Lankan power generation in 2018. (Attanayake, 2018)

MRIA is Sri Lanka's second gateway to the world, springing new hopes, expectations, aspirations, and enthusiasm for the aviation, economy, trade, and entertainment markets of Sri Lanka, setting up a massive growth opportunity for Sri Lankan Airlines and fulfilling one of the local aviation industry's strongest infrastructure needs.

US$ 209 million was allocated on the project, with the Chinese government providing US$190 million through China's Exim Bank and for the second step, a concessional loan of US$100 million was invested from Exim Bank of China while granting properties for development and updating infrastructure to China Harbor Engineering Company. (Attanayake, 2018) Initially, airlines had to bring extra fuel and used to have arrangements to return up in case they were unable to settle in Colombo and this main issue was resolved with the establishment of the MRIA, providing the airline financial benefits. Demand from the tourism industry was the key point of building the MRIA in Hambantota. (Sirimane, Seneviratne & Wijerathne, 2013)

The lotus Tower is the tallest tower in South Asia and the 19th tallest tower in the world is covering an area of 30,600 sq. meters. This was constituted at a cost of over $100 million, 80% of it was financed by China.

This is located in the heart of Colombo City, the 350-meter-high 17-story Lotus Tower contains a TV tower, telecommunications museum, hotel, restaurants, auditorium, observation deck, shopping center, and a conference hall. China National Electronics Import & Export Corp/ALIT Co. Ltd will be confided with the development of this enormous construction. (CSEC (Pvt) Limited, 2017)

This has significant intuitive links with Sri Lankan culture, helping to bridge the gap between both city's constructed construction and the rich cultural heritage of the region. The Lotus Tower related political economy offers insight to capture the fundamental nature of Sri Lanka's technological infrastructure growth. Among all the local, international media and people, the Colombo Lotus Tower attracted attention. (Rathnayake, 2015)

One of the major projects in the Central Business District and the Colombo Metro Area is classified as Port City Colombo. With a primary investment of USD 1 billion, the PCC extends 269 hectares, making it Sri Lanka's single largest direct foreign investment project. (Gunawansa, n.d.) China's BRI intends to develop a new world-leading city planning of regenerating land and sea-based on the best international exposure and an economic powerhouse along the current coastline of Colombo that would establish as the financial and business district of Sri Lanka by 2030.

CHEC is part of China Communications Construction Company (CCCC), which is a global professional gambler, developer, and is globally experienced in building construction. The vision of the CCCC is to make Colombo one of the leading maritime and logistics hubs in the country and to effectively change the borders of the main trading gateways of Sri Lanka. To build an ideal modern environment for business, living, and leisure, the new city (PCC) will reach into the intrinsic worth of the area and the environment. ("CHEC PCC (Pvt) Ltd - Sri Lanka", 2020)

Another key project was the transshipment port at Hambantota in the early 2000s, which was expected to become the country’s second-largest port after Colombo port.

It was financed by three fixed interest rate loans from EXIM Bank China amounting to $1.4 billion.13 Two Chinese state-owned enterprises (SOEs), China Harbour Engineering and Sinohydro Corporation, constructed the port. However, the project took longer than expected to come on stream and incurred financial losses putting a strain on Sri Lanka's public finances. Some have seen this as an example of unprofitable infrastructure investment and China's so called 'debt-trap diplomacy' (Ganeshan Wignaraja, Dinusha Panditaratne, Pabasara Kannangara and Divya Hundlani, 2020)

This is a major maritime project developed by BRI, based on the strategic position of the country in-order to gain more opportunities and invested US$ 361 million for 1 phase and US$ 810 million for the II phase which is undertaken by the Sri Lankan ports Authority. This project was initiated in 2008 and released for operations in 2010. Basically, the harbour area is protected by 312 m and 988m long two breakwaters while its capacity facilitates for 2500 ships of 100,000 DWT annually (Port of Hambantota, 2020).

Another critical reason to implement this project by china is, to maximize the oil flow via shipping lane south of the port. However, this is regarded as an unsuccessful project because of the difficulty for the large vessels to be entered into the port and Sri Lanka failed to manage operations while repay the funds.



### 2.3. Critical Evaluation of BRI projects in Sri-Lanka

It is important to understand the performance of the BRI projects and contribution for the nation. The paper is seeking secondary data evidence to prove the results and highlight the concern areas.

#### 2.3.1 Sri Lanka fallen into a Chinese debt trap?

One widely held interpretation of China's approach to Sri Lanka is that it uses commercial loans to advance its economic and geostrategic interests in the country. This view has been expressed by US Vice President Mike Pence, billionaire financier George Soros, the New York Times and think-tanks in Delhi and Washington DC.

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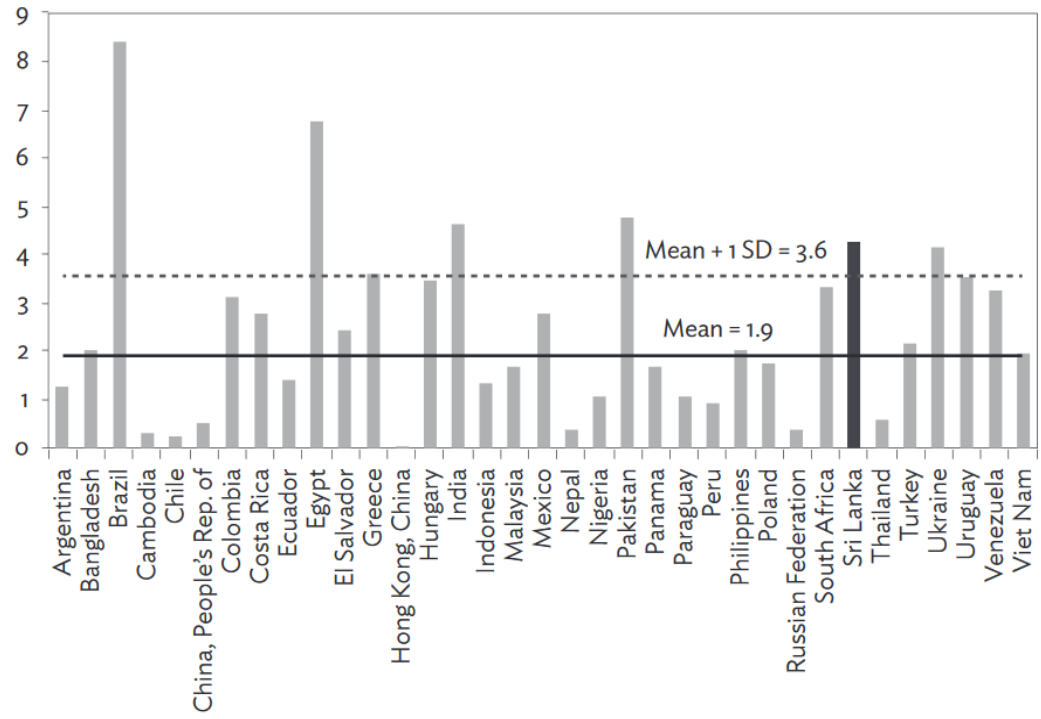
Their argument is that the BRI has extended large commercial loans for infrastructure projects in Sri Lanka without the strict conditionality normally imposed by multilateral development banks. Consequently, projects that were not commercially viable, particularly the Hambantota port, sustained losses. As a result, Sri Lanka became entangled in a debt trap that resulted in the country conceding majority control in national assets like Hambantota port and made the country vulnerable to Chinese influence. (Ganeshan Wignaraja, Dinusha Panditaratne, Pabasara Kannangara and Divya Hundlani, 2020)

As per the figure 6 Sri Lanka is in danger zone having high Interest payment level compare to other countries interest rate. This is the legacy of large and persistent fiscal deficits and thus a high debt-to-GDP ratio and high bond yields

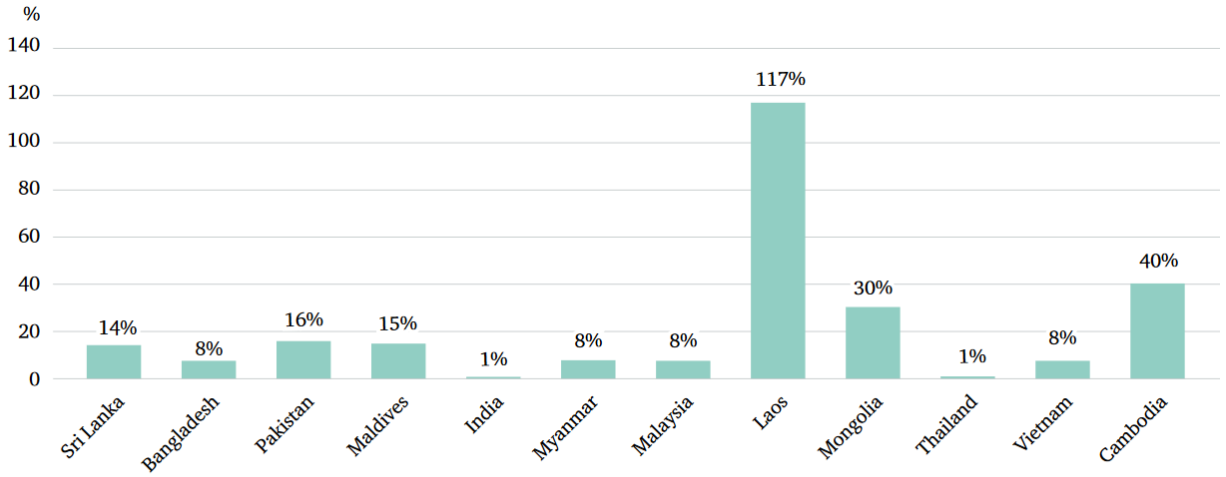
Figure 6: Government Interest Payment (% of GDP)




GDP = gross domestic product, SD = standard deviation.
[a] Derived from General Government Net Lending/Borrowing minus General Government Primary Deficit.
Source: Estimates based on IMF, WEO, accessed October 2016.

However, the above argument has been diluted by doing cross-country macroeconomic analyses against Sri Lanka's debt dynamics. Following Figure 7 depict that Sri-Lanka's debt ratio is still in a better position compared to other countries. And it has been categorized under low & medium category. Mongolia, Cambodia, Pakistan, Laos and the Maldives are all at higher risk.

Figure 7: Total Chinese investment as a % of destination country's GDP (2018)




Source: LKI calculations based on data gathered from the American Enterprise Chinese Investment Database and the IMF, World Economic Outlook Database.
Note: Cumulative investment 2006–18/GDP of respective country in 2018.

(Ganeshan Wignaraja, Dinusha Panditaratne, Pabasara Kannangara and Divya Hundlani, 2020)

The IMF's review of its extended fund facility in Sri Lanka reported that China has become an important provider of commercial loans to Sri Lanka for infrastructure projects and that these loans amounted to about $5 billion (15 per cent of external debt) at the end of 2018.Sri Lanka faces a general foreign debt problem, but this has little to do with Chinese loans. Such macroeconomic analyses may not be regarded as conclusive as they only provide estimates of Sri Lanka's debt position and China's role in it. Furthermore, these studies make little mention of the critical issue of the debt sustainability of Chinese loans.

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Based on data from the Ministry of Finance and the Central Bank of Sri Lanka, Table 4 provides information on Sri Lanka's total external public debt by holder and the ratio of debt service to exports. The data on Sri Lanka's total external debt and debt sustainability suggests that Sri Lanka may be at risk from a general external debt problem. In 2018, Sri Lanka's total external public debt rose to $34.7 billion and its debt service ratio increased to 15 per cent.

Table 3: Sri Lanka's external public debt and debt service

| | 2012 | 2015 | 2018 |
|---|---|---|---|
| Total external public debt (a) – $ billion | 23.7 | 28.6 | 34.7 |
| *Of which is held by:* | | | |
| China (b) | 2.2 | 4.8 | 5.0 |
| Japan | 4.3 | 3.4 | 3.4 |
| Other bilateral lenders (c) | 3.3 | 2.3 | 2.2 |
| Multilateral lenders (d) | 6.6 | 7.3 | 7.9 |
| Financial markets | 7.0 | 10.8 | 16.2 |
| Other (e) | 0.3 | 0.1 | 0.1 |
| External debt service to exports of goods & services (f) | 12.3% | 12.0% | 15.0% |
| *Of which is held by:* | | | |
| China | 0.8% | 2.3% | 2.5% |
| Japan | 2.5% | 1.3% | 1.2% |
| Other bilateral lenders | 1.7% | 1.8% | 2.5% |
| Multilateral lenders (World Bank, ADB etc.) | 2.0% | 1.9% | 2.3% |
| Financial markets (g) | 5.2% | 4.8% | 6.6% |

Source: Central Bank of Sri Lanka & Department of External Resources, Ministry of Finance Sri Lanka.

The value of Sri Lanka's external public debt to China doubled from $2.2 billion to $5 billion between 2012 and 2018 with a significant spike in debt occurring between 2012 and 2014 (see Table 3). As a percentage of GDP, Sri Lanka's external debt to China rose from 3.2 per cent to 5.6 per cent between 2012 and 2018.28 However, Sri Lanka owes less to China than it does to other foreign creditors. In 2018, external public debt owed to financial markets (e.g. holders of international bonds issued in Sri Lanka) accounted for as much as 18.2 per cent of Sri Lanka's GDP, while the amount owed to multilateral lenders stood at 8.9 per cent and bilateral lenders accounted for 6.3 per cent of external public debt.

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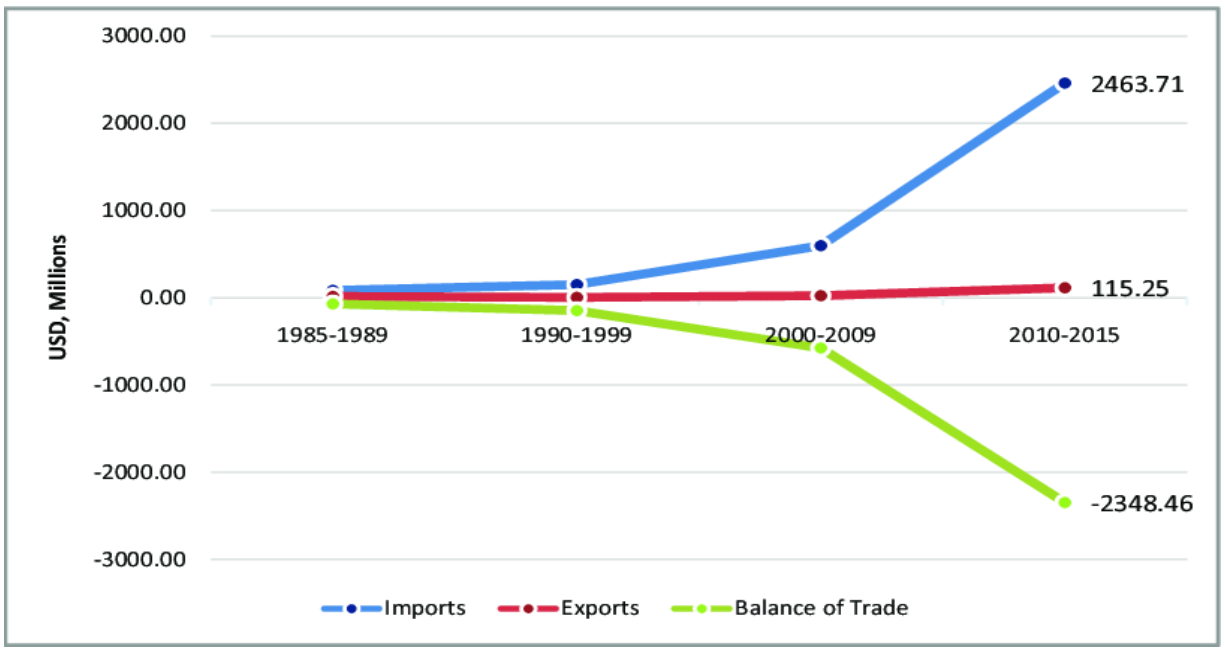
This compares with 2012 figures of 10.2 per cent owed to financial markets, 9.7 per cent to multilateral lenders and 11.1 per cent to bilateral lenders.29 This is indicative of a shift in Sri Lanka's foreign financing and debt dynamics during the transition to upper-middle-income status. A higher per capita income has meant that the country is graduating from concessionary aid towards more reliance on bilateral commercial loans and financial markets.

### 2.3.2 Trade Flows and Balance of Trade between Sri Lanka and China

Compared to its significance as an import partner, China's importance as an export destination for Sri Lanka is remarkably low. Specifically, Sri Lanka's exports to China in 2014 were valued at only US$ 173.5 million, accounting for just 1.5 per cent of Sri Lanka's total exports that year. Sri Lanka's sluggish exports to China, along with the dramatic increase of imports, especially after 2000, are shown below figure 8.

Figure:8 Trade flows and balance of trade between Sri Lanka and China




Source: Created by author, based on data from Export Development Board, Central Bank and Sri Lanka Customs

Exports to China increased 7-fold from 1985-1989 to 2010-2015, compared to an approximately 29-fold increase in imports from China in the same period. As depicted in figure 5, this has led to a starkly negative balance of trade with China, causing a deepening trade deficit during the period of 2000-2009 onwards. The trade deficit has accounted for 26.4 per cent of Sri Lanka's total trade deficit in 2014.

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

Revenue to GDP by major country groupings helps illustrate the extent to which Sri Lanka is an outlier—even among emerging market and Asian economies. Figure 9 shows that the average revenue ratio for all emerging and developing economies rose from 25% of GDP in 2000 to a peak of around 29% of GDP (and has fallen back somewhat since 2014 in the context of weaker commodity prices). The ratio for emerging Asia increased from 26% in 2000 to over 30% in recent years. Sri Lanka's revenue ratio has, in stark contrast, declined to less than half the emerging Asia average. (ADB,Prema-chandra Athukorala, Edimon Ginting, Hal Hill, and Utsav Kumar, 2017).

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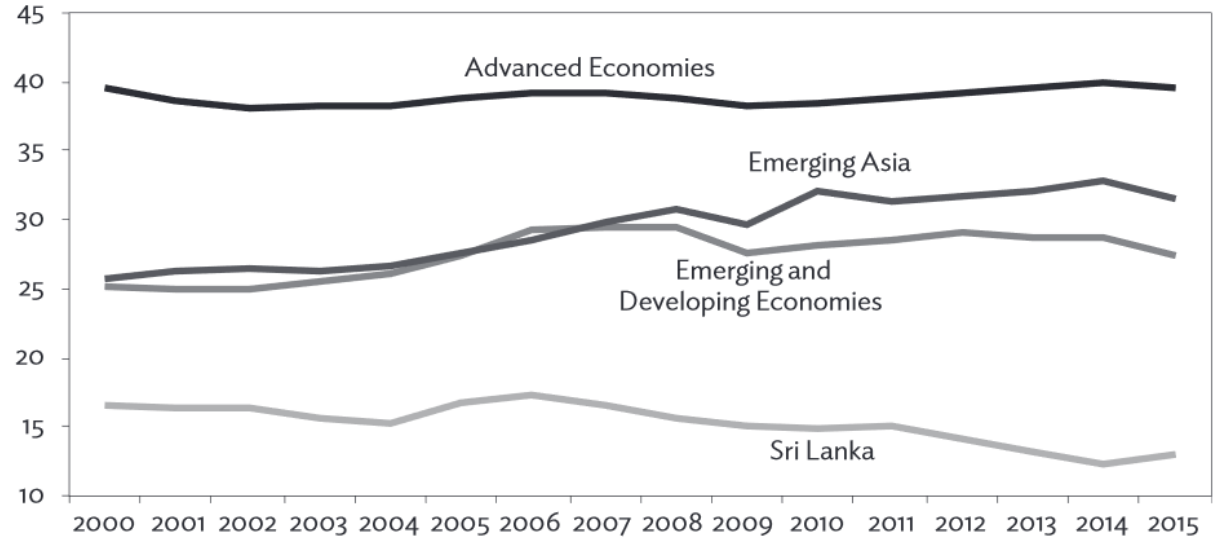
Figure 9: Revenue of Sri Lanka (% of GDP)



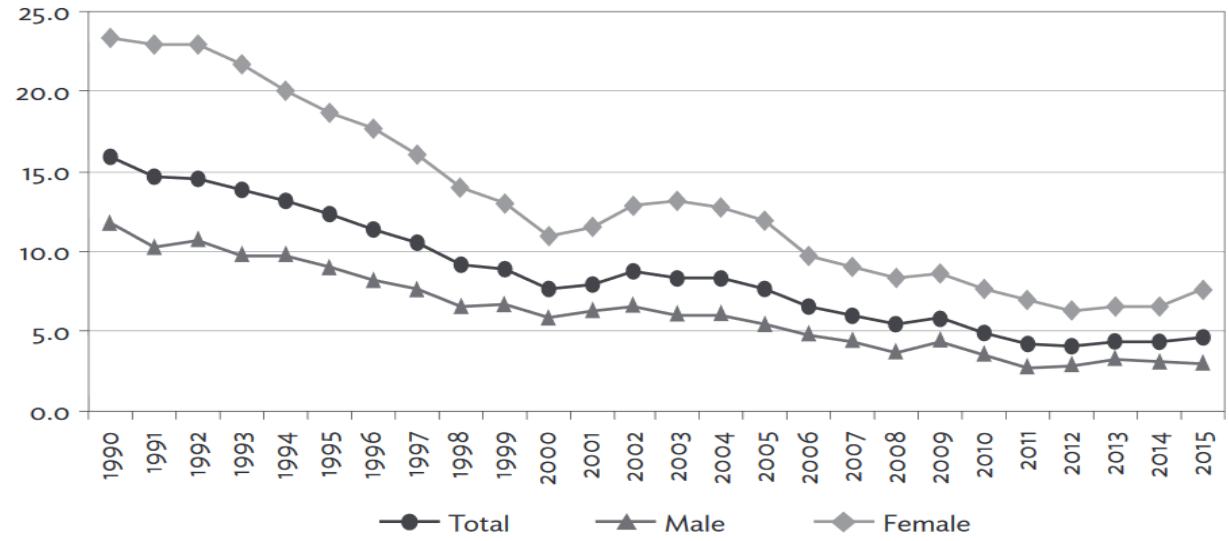

GDP = gross domestic product.
Source: IMF, WEO, accessed October 2016.

(ADB, Prema-chandra Athukorala, Edimon Ginting, Hal Hill, and Utsav Kumar, 2017).

### 2.3.3 Unemployment

The 15% of the unemployment rate has been declined continuously through the fifteen years despite economical. Cultural barriers. The observed trend is likely to overstate the decline in unemployment because the data do not cover the two war-affected Northern and Eastern provinces during 1990–2007 and the Northern Province for the remaining years.21 According to estimates by Sarvananthan (2016), which are not directly comparable with the official estimates because of methodological differences, the rate of unemployment in the Northern and Eastern provinces in 2012 was as high as 32%.

Figure 10: Sri Lanka's Unemployment Rate, 1990 – 2015 (%)




Note: Data for 1990–2007 do not cover Northern and Eastern provinces, and the Northern Province is not covered from 2007 on.
Source: CBSL (2016a), Special Statistical Appendix.

### 2.3.4 Domestic spillovers from Chinese investment

FDI is regarded as a crucial vehicle for economic development particularly for economies in the process of industrialization like Sri Lanka. Among other benefits, FDI tends to result in a diffusion of technology and management practices to domestic firms, which improves their productivity and competitiveness. Studies often distinguish between direct spillover effects of FDI (specific firm-to-firm knowledge transfers) and more indirect spillover effects from FDI (increased FDI presence, productivity improvements and industrialization).36 However, project-level data gaps make it more challenging to analysis direct spillover effects.

### 2.3.5 Implications for the environment

Most of early BRI projects are being criticized as they damage the ecological landscape and biodiversity of Sri Lanka in a long run. Colombo Port City, Hambanthota Port, Maththala Airport and Norochchole Coal -Fire Power plant are some of examples for those. However latest BRI projects have adhere to environmental authority circulations.

The ongoing operations of the Norocholai power station have led to significant carbon emissions. It is located in the Kalpitiya peninsula, surrounded by marine life including dolphins and whales, Wilpattu National Park, the country's largest national park. The park has been a home for many animals including elephants and leopards.

Activities of the Hambanthota Port releasing harmful pollutants including carbon and non-carbon varieties, greenhouse gases, smog and soot-causing nitrogen oxides. The Port has rich ecologically sensitive surroundings. Lagoons, Bundala National park, Marin environment and wild animals such as elephants are some of examples.

## 3 Conclusion

China has gained a strong growth for its economy by implementing master plan of BRI project and FDI activities. The global platform has been able to connect almost 2/3 of the world (140 countries out of nearly 200). As per the outcome, It is evident that China is practicing " givers gain theory where china is investing for projects as per the master plan and country requirement lavishly. In short term it would be outward investments which will negatively affect to the Chinese economy. However, in a long run, china would be able to gain many economic, political, geographical others related advantages. For an example, upon unsettlement of Hambanthota Port loan facility, china converted the facility under chinses government for 99 lease. There are direct and indirect advantages which cannot be measured in value. (eg; Access to Indian Ocean)

BRI has created more opportunities for China while less opportunities for rest of the world. The most of projects that was completed under BRI, china was able to remain as the long-term partner for material supply chain and same activity will block the opportunity to pitch for others.

It had been evident that china along cannot realize the dream of BRI project due to financial constraints. Therefore, granting funds are being taken with different strategic partnerships of the host countries. This requires a sound investment environment to attract the capital required and to ensure that host countries get the best value for money.

Maintaining a better relationship with OECD countries is a one of key strategies that China has been following up to now to meet the quality co-operation and relationship with the host countries. There are many instances that host country would demand for their own judiciary process, terms and conditions, regulations, property rights level playing fields, competition, human rights, internal demands, etc. Therefore, managing the demands and praise the concern parties have to be manage strategically in order to the plans.

Many articles have been published on Sri Lankan BRI investments in terms of political, economic and environmental aspects. Most of them have predicted results and no proper evaluation done on the post results as many projects were on going in that time. Therefore, Researcher would like to fill the gap by conducting a Research on "the impact of BRI projects to the contemporary economy of Sri Lanka". The Research will only cover BRI completed projects while avoiding other ongoing BRI projects in Sri Lanka. Furthermore, researcher has considered the variables of unemployment, FDI benefits, Debt value of BRI, Trade flows & balance of Trade between two Countries, Revenue of Sri-Lanka and slight evaluation of environmental impact to evaluate the impact of the BRI benefits for the Sri Lanka.

# 4 Abbreviations

| | | |
|---|---|---|
| OECD | - | Organization for Economic Co-operation and Development |
| BRI | - | Belt and Road Initiative |
| FDI | - | Foreign Direct Investments |
| IMF | - | International Monitory Fund |
| GATT | - | Global Agreement on Trade and Tariff |
| WTO | - | World Trade Organization |
| PPP | - | Purchasing Power Parity |
| CPI | - | Consumer Price Index |
| FTZ | - | Free Trade Zone |
| GDP | - | Gross Domestic Product |
| MRIA | - | Mattala Rajapaksa Hambantota Airport |
| PCC | - | Port City Colombo |
| CHEC | - | CHEC Port City Colombo (Pvt) Ltd |
| CCCC | - | China Communication Construction Company |
| SOE | - | State Own Enterprises |
| DWT | - | Deadweight Tonnage |

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# 6 Attachment 1

| Project Name | Loan/ Investment | Amount $ million | Loan terms | Foreign lender/ Investor | Implementing agency | Contractor | Economic benefits |
|---|---|---|---|---|---|---|---|
| Southern Expressway *(ongoing, started consturction in 2011)* | Loan (4) | 1,545 | Fixed Rate – 2% | EXIM | Road Development Authority | CCC | • 48% of total expressways.<br>• Commute to Galle from Colombo has halved from 3 hours to 1.5 hours.<br>• Berter infrastructure has allowed the southern coast to develop as a tourist hotspot. |
| Outer Circular Highway Project *(ongoing, started consturction in 2014)* | Loan (1) | 494 | Fixed Rate – 2% | EXIM | Road Development Authority | Metallurgical Corporation of China Ltd | • 5% of total expressways.<br>• Easier commute to Colombo from suburbs. |
| Colombo Katunayake Expressway *(completed in 2013, started construction in 2009)* | Loan (1) | 248 | Fixed Rate – 6.3% | EXIM | Road Development Authority | China Metallurgical Group Corporation | • 15% of total expressways.<br>• Reduced commuting time to airport from 2 to 1.5 hours from Central Colombo. |
| Hambantota International Airport project *(completed in 2013, started construction in 2010)* | Loan | 190 | Fixed Rate – 2% | EXIM | Airport & Aviation Lanka Limited | CHEC | • Emergency landings possible with 2nd airport.<br>• Saved Sri Lanka $1.5 M per flight, if diverted to Southern India during an emergency.<br>• Increased national passenger capacity, reducing congestion at Colombo Airport. |
| Hambantota Port Development Project *(completed, started consturction in 2007)* | Loan (3) | 1,335.7 | Fixed (2–6.5%) and Variable Rates | EXIM | Sri Lanka Ports Authority | CHEC | • Industrial zone will bring in more primary industries.<br>• Diversified port operations through the addition of value-added services. |
| CICT Colombo Terminal *(completed in 2014, started consturction in 2011)* | Investment | 500 | N/A | CMPH | Sri Lanka Ports Authority | CMPH | • Currently the only deep-water terminal in South Asia equipped with facilities to handle the largest vessels afloat.<br>• CICT has helped the Port of Colombo to move up the Drewry's Port Connectivity Index to be ranked the 11th best connected port in the world in 2018. |
| Norocholai power station *(completed in March 2011, started consturction in 2006)* | Loan (3) | 1,346 | Fixed Rate – 2% | EXIM | Ceylon Electricity Board | China Machinery Engineering Corporation | • Accounts for 31% of total installed capacity of CEB-owned power plants.<br>• Accounts for 33% of Sri Lanka's total power generated in 2018. |
| Colombo Port City *(ongoing, to be completed in 2042, started construction in 2014)* | Investment | 1,300 | N/A | CHEC | N/A | CHEC | • Adding 1.5 million units of A-Grade office space (tripling total office space in Colombo).<br>• Would improve Sri Lanka's ease of doing business rankings.<br>• Likely to attract high tier financial services. |
| Lotus Tower *(completed in September 2019, started consturction in 2012)* | Loan | 88.6 | | EXIM | Telecommunications Regulatory Commission of Sri Lanka | China National Electronics Import & Export Corporation | • Improve telecommunications infrastructure.<br>• Reduce the number of downtime incidences.<br>• Provide leisure activities to public. |

Source: Calculations based on data provided by the Central Bank of Sri Lanka, Department of External Resources, Ministry of Finance, Sri Lanka; Board of Investments, Sri Lanka, and various interviews with key persons.
Notes: EXIM: Export-Import Bank of China; CMPH: China Merchant Port Holdings; CHEC: China Harbour Engineering Company; CCC: China Communications Construction Company Limited.

Financial terms and expected economic benefits of major Chinese projects