

Sri Lanka-China tensions rise over suspended port project

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The Sri Lankan government's decision to review, and in effect suspend, the \$US1.4 billion, Chinese-backed Colombo Port City (CPC) project has strained relations between Beijing and Colombo. The review was announced in January shortly after Maithripala Sirisena defeated President Mahinda Rajapakse in the presidential election and formed a new government led by the opposition United National Party (UNP).

The agreement to build the port facility was signed when Chinese President Xi Jinping visited Sri Lanka last September. The plan was to construct a modern 500-acre (230 hectare) city, with hotels, apartments and office buildings, on earth fill near the seafront of Colombo harbor. About 200 acres were to be held by China Communications Construction Company (CCCC), the main contractor, on a 99-year lease. Another 50 acres were to be granted outright.

The project, which was sealed with the Rajapakse government, is part of Xi's ambitious plan for a Maritime Silk Route, involving substantial investment in Asia and Africa aimed at boosting trade and tourism. Beijing is pushing the scheme as a means of extending its influence in the Indo-Pacific region and securing shipping routes on which it relies for importing energy and raw materials from Africa and the Middle East.

In the course of the campaign for the January presidential election, Maithripala Sirisena and his backers repeatedly criticised Chinese investments in the country and Rajapakse's ties with Beijing, and indicated a shift in foreign policy towards the US and India.

The US was hostile to the Rajapakse government and its ties with China. US efforts to undermine Chinese influence in Colombo are part of the Obama administration's broader "pivot to Asia"—a comprehensive diplomatic, economic and military

strategy aimed at ensuring continued American dominance.

Washington exploited the issue of Sri Lankan war crimes during the civil war against the separatist Liberation Tigers of Tamil Eelam (LTTE) to put pressure on Rajapakse. When that failed, the US gave the green light for what amounted to a regime-change operation in the January election worked out months in advance with former president Chandrika Kumaratunga and opposition UNP leader Ranil Wickremesinghe.

Since coming to power, Sirisena and the UNP-led government have rapidly shifted foreign policy away from Beijing and towards Washington and New Delhi. High-level exchanges have already taken place between Sri Lanka and the US and India. The government's decision in January to review the port project was another clear signal that it was distancing itself from China.

The Chinese government sent special envoy Liu Jianchao in early February to discuss the possible cancellation of the port project. After the visit, Liu said "The project will continue only after being re-evaluated. We respect the decision by Colombo." His comments suggested that the government confronted legal problems in cancelling the contracts for the construction.

The Sri Lankan government has based its review on environmental issues, alleged corruption and investment figures that were supposedly inflated by the Rajapakse government. Moreover, the decision on the huge project appears to have generated differences within the government over how to proceed.

An article in mid-February in the US-based *Foreign Policy* noted that Sirisena had appeared to give approval for the port project so as to avoid "a misunderstanding" with China. "That raised eyebrows,

because his [Sirisena's] election was widely seen as a blow to China's budding friendship with Sri Lanka; former President Mahinda Rajapakse had steadily moved Sri Lanka closer to Beijing," it stated.

At the same time, *Foreign Policy* noted that Prime Minister Wickremesinghe attempted to "walk back" Sirisena's approval in comments to parliament. The fact that the fate of the project was being closely followed in the US makes clear that the Sri Lankan government was under considerable pressure from Washington and its allies.

During a visit to Beijing in late February, Sri Lankan Foreign Minister Mangala Samaraweera made clear that the review was continuing and the future of the port project was not guaranteed. In response to a media question, Samaraweera also ruled out any repeat visit of a Chinese submarine, which docked last year in Colombo during the Japanese prime minister's visit. India in particular protested over the incident.

The port project received a further blow when Sri Lankan Investment Promotion Minister Kabir Hashim threatened legal action against the Chinese contractor, CCCC, if it did not suspend construction work. He warned that "the ministry of ports will take necessary action to halt the work until this inquiry is done."

CCCC suspended the project from March 6. CHEC Port City Colombo, the private company carrying out work for CCCC, also issued a statement noting that it had been asked to produce all documents signed with the Colombo government. CCCC has complained that it is losing \$380,000 a day as a result of the suspension, which affects about 1,000 workers directly and another 4,000 indirectly.

China has implicitly warned that Chinese investment could be compromised if the project is cancelled. Foreign Ministry spokeswoman Hua Chunying pointedly called for a resolution of the issue to "preserve Chinese companies confidence to invest in Sri Lanka in the overall interests of China-Sri Lanka friendliness and the fundamental interests of Sri Lanka's national development."

Yi Xianling, China's ambassador in Colombo, urged the government and Chinese construction company last Tuesday to "observe rule of law and mutual trust." He suggested that the current situation could lead China to reconsideration about its financial support and pointed out that China had helped Sri Lanka "during the global

financial crisis in 2008, [when] major donors reduced their preferential loans."

The Xinhua news agency featured the remarks of former Sri Lankan president Rajapakse who declared that halting "development projects means that the Sri Lankan workers and engineers working on them will lose their jobs and thereby the cash flowing to villagers will stop." *Haiwai Net* pointed out that India did not have the same capacity to help Sri Lanka economically and Colombo will "still depend on Beijing for infrastructure investment in the long term."

The new Sri Lankan government is engaged in a difficult balancing act. China has invested around \$5 billion in Sri Lanka and is the country's largest aid donor. While integrating the country into Washington's anti-China "pivot," Sirisena, who is due to visit Beijing towards the end of March, no doubt is continuing to seek Chinese aid and investment.

In the meantime the fate of the Colombo port city project remains undecided and no date has been set for finalizing the review.



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