ANALYSIS OF LOBBYING AND NEGOTIATIONS OF SRI LANKA WITH CHINA REGARDING THE ACQUISITION OF HAMBANTOTA PORT IN 2017

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Submitted: March 05th, 2023     Revised: March 12th, 2023     Accepted: March 25th, 2023

Abstract: This study aims to analyze Sri Lanka's lobbying and negotiations with China by offering debt for equity swaps, i.e. exchanging debt into assets. The situation at that time was that Sri Lanka wanted to build a port on the Hambantota route, now known as Hambantota Port. But Sri Lanka lacks funds for development and needs help from a large economy. China, which has good bilateral relations with Sri Lanka, is willing to assist Sri Lanka in the form of loans. Behind the loan lies China's national interest, which is to expand the trade route of the Belt and Road Initiative. But after the port operated, the output of the port was not optimal and even suffered losses. Gradually Sri Lanka's foreign debt is getting bigger, and it is in a cornered condition of difficulty paying debts to China, but on the other hand, Sri Lanka also needs funds, namely port operational costs to continue operating. Finally, Sri Lanka logican to China by doing debt for equity swaps with the result that China agreed to acquire the Hambantota port.

Keywords: Port Acquisitions; Lobbying and Negotiations; Belt and Road Initiative.
INTRODUCTION

The People's Republic of China-PRC (hereinafter referred to as China) which was established on October 1, 1949, is a country with a communist socialist political system but a capitalist economic system, in that, lies the uniqueness of China which is run two systems at once. China is the most populous country in the world. According to China's National Bureau of Statistics, the population is 1.41 billion. China grew into a superpower that is said to rival the United States. China is a big country that cannot be underestimated as it used to be, this country is developing rapidly, especially in terms of its economy. China's success in becoming one of the superpowers is the result of China's efforts so far by establishing many relations with other countries both bilateral and multilateral, in various fields; politically, economically, and socially, one of which is that China has bilateral relations with Sri Lanka (Kunandar, 2022).

Sri Lanka is one of the South Asian countries that have the official name of the Democratic Socialist Republic of Sri Lanka. The country, which became independent on February 4, 1948, relied on exports from its agricultural sector as the main source to meet the country's economy. Other sectors that Sri Lanka has are textiles, spices, rubber, garment products, and processed from the sea and coconuts. In this country, there are also precious stones namely jade, bidi, emerald, diamond, pomegranate Mirah, etc. The country has a major industry namely graphite which is mostly exported to Japan, in addition, there are also ceramic and porcelain industries. Bilateral relations between China and Sri Lanka are cooperation between developed countries and developing countries, where the situation is that developing countries seek to carry out their country's development but need assistance from developed countries in the form of loan funds. This is the reason Sri Lanka despite various trade and social welfare problems, conducts trade and economic cooperation with China (MINISTRY OF FOREIGN AFFAIRS, 2020) (Amalia, 2016).

China's booming economy originated from economic reforms that China has carried out since 1978, after implementing the Open Door Policy during the reign of Deng Xiao Ping. China's economic progress continues to increase now, new policy innovations continue to be issued to continue to improve its economy. Then through the economic field, China began to expand its hegemony, starting from the Asian continent to Europe. One of the policies is the Belt and Road Initiative (BRI). The vision of the Belt and Road Initiative (BRI) is to improve infrastructure development and the welfare of BRI states by improving cross-border connectivity between countries. Some of BRI's cooperation priorities are Policy Coordination, Facilities Connectivity, Free Trade, Financial Cooperation, and People People Bonds (Policy, 2016).

China provides loan assistance to Sri Lanka, which includes national interests that China exercises. Sri Lanka is taking part in the BRI project with China agreeing to the String of Pearl. One of the implementations of China’s BRI policy is the construction of ports. Sri Lanka needs a port so that export & import activities can
run easily and that there is a movement in the Sri Lankan economy. China provided a $1.1 billion loan to Sri Lanka, making Sri Lanka the third largest recipient of Chinese funds after Pakistan and Russia, among other BRI countries. But in return, according to an agreement with CM Port (China Merchants Port Holding) in 2017, the Chinese government will own 85% of the Port and have a lease of the Port for 99 years and approximately 130,000 hectares of land around the port. It may seem unfair, and burdensome to Sri Lanka, but this is a step that Sri Lanka needs to take to revive its economy by facilitating export and import activities in the country (Sebayang, 2019).

From the Chinese side, the port made by Sri Lanka is the capital of China, because the port is a stopover route for ships to transport and distribute export-import commodities to China not only Sri Lankan commodities, and the port is in China's maritime trade route, the Belt and Road Initiative (BRI). However, the construction of this port made Sri Lanka dependent according to the agreed cooperation agreement, which resulted in this development becoming a debt and a new problem for Sri Lanka. Due to Sri Lanka's inability to repay its loan as due at the end of 2016, the Sri Lankan port was handed over to China with the acquisition of a majority stake of 85% of Hambantota Port signed on July 25, 2017. With the takeover of the port, China's naval power in the Indian Ocean is getting stronger, this is China's strategy to increase its strength in the international realm. The cooperation offered by China, through the BRI policy, creates dependence of borrowing countries on China (Nurjyanti, 2020) (Shepard, 2016) (Nurjyanti, 2020).

THEORETICAL FRAMEWORK

International Cooperation Theory

In conducting international relations there are several forms of social interaction, such interaction can be in the form of war, conflict, and cooperation in international organizations. Cooperation is a form of the cooperative effort carried out by individuals with other individuals or groups in achieving one or several goals. After the Cold War ended, many countries established close relations through international cooperation. Until now, international cooperation is a form of activity that cannot be avoided by any country in the world. The necessity of establishing international cooperation arises due to the interdependence of international actors on the needs of their respective countries (Mas'ood, 1990) (Widiastuti, 2012) (Zulkifli, 2012).

Koesnadi Kartasasmita in his book entitled International Organization and Administration also states that international cooperation in the international community is a must as a result of the existence of interdependent relations and the increasing complexity of human relations in the international community. International cooperation occurs because of a national understanding that has common goals, based on international conditions that need each other. Cooperation is based on mutual interests among countries, but those interests are not identical. According to James E Dougherty, cooperation is a series of relationships that are not based on
violence or coercion and are also authorized by law. Cooperation occurs because of behavioral adjustments by actors in response and anticipation of choices made by other actors (Kartasasmita, 1997)(Dougherty, 1997).

The objectives of establishing international cooperation are: (Widiastuti, 2012).

a. Fulfill the needs of the people of each country;
b. Prevent and avoid conflicts that may occur;
c. Gained recognition as an independent state;
d. Strengthening state relations.

Through this theory, the author analyzes that Sri Lanka cooperates with China to build infrastructure, namely a port in the Hambantota region, known as Hambantota Port, of course, to advance the Sri Lankan national economy, more easily exporting specifically Sri Lankan commodities/natural resources. Likewise with China, in carrying out the BRI program or policy, China initiated this policy in the form of cooperation with various countries in the world to build trade routes in ancient times with the term silk road which was a route passed by traders from Europe to China. China is a borrowing country, which sits with countries that China lends funds to build and improve its infrastructure, which on other hand helps China to succeed in the BRI (a trade route that China designed to expand its hegemony and economy).

**Negotiation Theory**

Negotiation is one of the communication instruments. Negotiation requires a communicative approach, in a negotiation process there are various kinds of interactive elements. A communicative approach is an approach that explains symbols, messages, and language as communication tools used to receive proposals and framework problems that can affect others in the process of reaching an agreement. Negotiation has an important role for every policymaker to get a better perspective on complex issues, behind the importance of a policy problem. (Aditriya, 2020).

According to Daniel Druckman, there are 4 main streams of negotiation theory, namely puzzle solving, a bargaining game, organizational management, and political diplomacy. According to Howard Raiffa, the types of negotiation approaches are symmetrical and asymmetrical dimensions as well as prescriptions and descriptions. According to Linda L. Putnam, there are 2 common approaches, namely descriptive bargaining and integrative bargaining. According to me. William Zartman, there are 5 different levels of analysis in negotiation, namely the structural approach (win-lose), process approach (win-lose), integrative approach (win-win solutions), strategic approach (win-lose), and behavioral approach (win-lose). Through this theory, the author analyzes that Sri Lanka also negotiated with China because of difficulties in terms of debt repayment for the construction of Hambantota Port.

**MATERIALS AND METHODS**

This research is descriptive research with a qualitative approach and uses secondary data, namely pre-existing information, which is then collected by the
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researcher and used to complete the research data needs. According to Saryono (2010), qualitative research methods are research that has the function to investigate, describe, explain, and discover the qualities or features of social influence, which aims to understand the object under study according to the researcher's perspective. The level of analysis of this research is the country level, where Sri Lanka and China are the objects of this research. This study uses data through online data analysis and document analysis.

RESULTS AND DISCUSSION

A. China-Sri Lanka Bilateral Relations

Since the beginning of Sri Lanka's independence, bilateral relations between China and Sri Lanka have been established. China and Sri Lanka had diplomatic relations officially established in 1957, which was marked by the presence of the Chinese embassy in Sri Lanka precisely in Kolomba, as well as the Sri Lankan embassy in Beijing. But previously the two countries had signed the Sino-Lankan Rice and Rubber Pact which is said to be a new beginning in bilateral relations in the economic and trade fields of China and Sri Lanka. (Erina, 2022)(Aditriya, 2020) The manifestation of the closeness between the two countries was when Sri Lanka gave recognition to One China regarding China's seat at the United Nations. When the civil war of the Tamil nationalism movement in the late 1970s occurred, there were many human rights violations. The international community through the UN Security Council and also the UN Human Rights Council pressured the Sri Lankan government firmly. The United States has also withheld cooperation and sales of military equipment to Sri Lanka. This resulted in a diplomatic vacuum, and this opportunity was taken by China by supporting the Sri Lankan government and providing military equipment. (Son, Prameswari, &; Fasisaka)

The increasingly strong relations between the two countries were marked by the achievement of the China-Sri Lanka All-Around Cooperation Partnership of Sincere Mutual Support and Ever-Lasting Friendship until it was upgraded to the Strategic Cooperative Partnership. Then, the relationship between the two countries was well established until the two countries trusted each other to work together. Of course, the cooperation aims to achieve common goals. When Sri Lanka wants to advance its country by carrying out infrastructure development but needs large financial or economic assistance, there China is present as an investor who certainly has a personal goal or national interest, namely reviving the Silk Road and making the Maritime Silk Road Initiative given the position of Sri Lankan ports are strategic and has high economic value.(Shabbir, 2017)

Source: https://www.hindustantimes.com/analysis/china-s-investment-in-mahinda-
B. Sri Lanka and China’s National Interest in Hambantota Port Cooperation

Sri Lanka especially in the city of Hambantota has quite a lot of natural resources and the Hambantota route is quite a busy route, hence Sri Lanka needs a port to drive the country’s economy. Through these ports, Sri Lanka can easily carry out export and import activities. But of course, it requires large funds for port construction, Sri Lanka which has economic problems in its country needs financial assistance from large countries that have rapidly developing economies. Therefore, China offered financial assistance in the form of loans to Sri Lanka, behind the offer there is certainly a national interest that China has (Nurjayanti, 2020).

China lends funds because it has its own National Interests. With Hambantota Port, China can realize its policy, namely the Belt and Road Initiative in the Asian region. The port acts as a stopover route for ships to transport and distribute export-import commodities to China because the port is in China’s maritime trade route. This cooperation is an effort made by China to succeed in the initiation of the modern silk road (String of Pearls) through One Belt One Road (OBOR) which is now known as the Belt and Road Initiative (BRI). The Belt and Road Initiative (BRI) is divided into two interconnected lines. First, the Silk Road Economic Belt (connecting China with Central Asia, South Asia, Southeast Asia, the Middle East, Eastern Europe, Western Europe, the Mediterranean Sea, and the Persian Gulf. Second, the 21st(Nurjayanti, 2020) Maritime Silk Road-sea route (connecting China with Europe, South Asia, the Middle East, and Africa through the South China Sea, Indian Ocean, and South Pacific Ocean) (Aditriya, 2020).

C. China-Sri Lanka cooperation to build Hambantota Port

China-Sri Lanka bilateral relations remained established and strengthened during the reign of Mahinda Rajapaksa until it reached cooperation in the development of the Hambantota Port. Sri Lanka and China cooperate in the economic sector only. Previously Sri Lanka and China had collaborated on the construction of roads to airports, then the cooperation continued with the creation of a port. Cooperation in the development of this port has been carried out since 2007 (Moramudali, 2019). Initially, Hambantota was just a busy route in Sri Lanka's southern province, until Mr. Rajapaksa had the desire to build a port on this route. However, the construction of the port requires large funds.

The Sri Lankan government is lobbying for aid for development funds. Previously, the Sri Lankan government lobbied the Indian state but received a refusal, until finally Sri Lanka received loan assistance from China. China, which has good bilateral relations with Sri Lanka, offered loan assistance to build the port until Hambantota Port located in Hambantota city has been completed and opened in 2010. Hambantota Port is located in a strategic place because it is directly facing the Indian Ocean (Nurjayanti, 2020). Having the original name Megampura Mahinda Rajapaksa Port, Hambantota Port is a project nearby of the Rajapaksa government to China.

China has provided a loan of 1.12 billion USD (phases one and two) for this project (Aditriya, 2020). From foreign loans originating from China, there are several developments of Hambantota Port:
1. First, the construction of Hambantota Port began in January 2008 to December 2011 (Aditriya, 2020). The funds held are 85% (out of 361 million USD) from China through Exim Bank and 15% (Sembiring, 2022) from Sri Lanka through the Sri Lanka Port Authority (loan interest rate of 2%).
2. Second, the construction of Hambantota Port took place from September 2012 to April 2015. (Aditriya, 2020) The funding is fully covered by China in three tranches and the estimated total cost is 809 million USD. (loan interest rate of 6.3%)

Both phases of Hambantota Port construction are carried out by China Harbour Engineering Company (CHEC) which is the contractor, while Sri Lanka Port Authority (SLPA) is the project supervisor. China is the fourth largest lender to Sri Lanka, with the first largest borrowers being international financial markets, the second being the Asian Development Bank (ADB), and the third being Japan(Amalia H. A., 2022).
3. Third, this last stage of development lasted from 2015 to the present. The idea of building Hambantota port has been around since 1980, but there has been no serious government or political leader to realize it. The reign of Mahinda Rajapaksa in 2005 was only realized of course with support from China. Hambantota Port has been officially opened and operated for trade transit since June 2012 (Aditriya, 2020).

One of China’s policies that we know of is the Belt and Road Initiative. Through this policy, China provides a lot of assistance to countries targeted by China to help expand its hegemony and trade routes. Therefore, China is one of the countries that provide many loans to other countries, including countries on the Asian continent, one of which is Sri Lanka.
D. China-Sri Lanka Conflict and Negotiations, and Collective Agreement Results

In the beginning cooperation for the development of Hambantota Port seemed to go well and even smoothly with the spirit of each country to achieve their respective national interests. Until a general problem arises, when the debtor country in this case Sri Lanka is unable to pay its debt to China at the agreed time (due) together. In 2007, the then President of Sri Lanka, Mahinda Rajapaksa, signed 8 MoUs of bilateral agreements with the Chinese government, out of these 8 MoUs, China is increasingly seen as playing an important role in the progress of development in Sri Lanka, especially in terms of providing loan funds for development. After that, in 2010 China re-signed cooperation in the Framework, namely the Hambantota Port development project.

Conflict/ The Beginning of Problems

Sri Lanka is having difficulty repaying its foreign debt. Starting with Hambantota Port from its first operation, June 2012 until six years of operation, it suffered losses (the profits obtained were not comparable to the cost of the construction port). Hambantota Port has shown no significant development as if it has failed to attract ships for transit. Throughout 2012, Hambantota Port attracted only 34 ships out of tens of thousands of ships passing along one of the busiest shipping lanes in the world. This has resulted in Sri Lanka experiencing difficulties in servicing its external debt. Sri Lanka's debt accounts for 95.4% of GDP or US$58.3 billion, and the country's entire revenue is used to service

debt. Then, Sri Lanka’s poor national economic condition from the past, namely the accumulation of large amounts of government debt and the exposure of the problems of the previous government which tapped state-owned enterprises to make additional loans of unknown amounts by Sri Lanka’s finance ministry, estimated at $9.5 billion.

Sri Lanka’s government debt buildup came during the ambitious reign of Mahinda Rajapaksa but saw Sri Lanka’s government debt triple and foreign debt double fold. Efforts made by former president Mahinda Rajapaksa are known to be expensive, for example, building a new city in the middle of the forest with a value of billions of dollars, building one of the highways most expensive, moving stones from the port at Hambantota for $42 million, and other expensive endeavors (Shepard, 2016). Sri Lanka suffered losses and was unable to pay its debts on time. This is a dilemma, considering that Sri Lanka has a lot of debt as mentioned above, on the other hand, Sri Lanka still must pay funds port construction loans to China and port operating funds to keep operating (Aditiasari, 2017).

**Sri Lankan Government Negotiates to Resolve Conflict**

The loss and desperate situation to pay the debt made Sri Lanka take steps to ease the debt payment. China first lent its funds in 2008. Sri Lanka’s loan agreement to China is medium-term debt, where medium-term debt has a repayment maturity period of 15 years, meaning 2023 (Aditriya, 2020). However, given Sri Lanka’s economic condition and the absence of significant benefits from Hambantota Port, Hambantota Port must continue to operate to attract ships for transit as well as require port maintenance costs and continued construction of phase three. Sri Lanka is offering debt-for-equity swaps to China through its Prime Minister, Ranil Wickremesinghe (Aditiasari, 2017).

In 2017, Sri Lankan Prime Minister Ranil Wickremesinghe submitted a proposal to the Chinese Ambassador to Sri Lanka Yi Xianliang on an offer to exchange debt for assets. Sri Lanka offers management rights to Sri Lanka’s largest infrastructure, including Mattala International Airport and Hambantota Port to China. Reporting to Colombo’s Sunday Times, China responded by rejecting the offering(Aditiasari, 2017). The rejection from China is not without reason, some of the reasons for rejection are:

- From the beginning of the operation of Hambantota Port in 2010 to 2016, suffered a large loss of around 300 million USD. Even the Sri Lanka Census and Statistics Department in 2017 stated that Hambantota Port had the worst performance compared to 3 other ports in Sri Lanka, namely Colombo Port, Galle Port, and Trincomalee Port. The reason is, Hambantota Port experienced a decrease in the number of annual ship visits from 2014 to 2016. The number of ship visits in 201 was 335, experienced a decrease in 2015 which was 295 ships, and experienced another decrease in 2016 which was 281 ships.
- Quoted by The Sunday Times on Tuesday, January 10, 2017. Yi Xianling stated: “We are not interested. Judging from the law in China, this is not possible”(Sunday Times, 2016).
But the Sri Lankan side remained persistent in bidding and negotiations, until an international meeting, namely the Committee on Economic Management (CCEM) of Sri Lankan Prime Minister Wickremesinghe still tried to convince China of debt exchange with Hambantota Port assets. The Chinese felt that Sri Lanka’s offer was less favorable, so China requested an additional agreement of 15,000 acres of land around the port. The negotiation process, which was initially tense because the results tended to be rejected, then softened as China showed its commitment to keep Sri Lanka out of its economic problems nationally by recommending leading companies to cooperate with Mattala Airport and Hambantota Port as well as several other companies in the Hambantota region.

**Results of Negotiations between China and Sri Lanka**

As a result of Sri Lanka and China's negotiations, the two countries have agreed on the acquisition of a majority stake in Hambantota Port. In mid-2017 China began the results of joint negotiations, namely the acquisition of 85% of Hambantota Port shares. China with China Merchants Port Holdings and Sri Lanka with Sri Lanka Ports Authority agreed, by signing the Concession Agreement on July 25, 2017, and also with the Sri Lankan Ministry of Ports and Shipping and Hambantota International Port Group and Hambantota Port Services Company. The agreement between China and Sri Lanka on acquisitions will last for 99 years. Through this acquisition, China has a large share in managing, running, and developing Hambantota Port, but according to the agreement, 1.1 billion USD is needed to own 85% of Hambantota Port shares (Sirilal & Aneez, 2017).

**CONCLUSIONS**

China built a project called OBOR (One Belt One Road) which is now known as the Belt and Road Initiative (BRI) is one of the efforts to build a New Silk Road in this world. The purpose of this project is how to make Chinese territory can be connected with strategic areas outside China, by land and sea. The BRI project itself is one of them passing through Sri Lankan territory. Sri Lanka is a country on the South Asian continent to be very strategic in China’s view to establish China's position as the largest trading partner. Relations between the two countries have also been going on since several centuries ago, in the field of trade. Sri Lanka's bilateral agreements with its neighbors also offer opportunities for trade and investment cooperation in industrialized markets. Sri Lanka initially needed funds for the construction of the Hambantota port to build its economy which was beginning to ebb and flow. Hambantota itself has quite a lot of natural resources and will later be able to make the investment growth of these two countries will develop very well.

Hambantota Port has received investment from China amounting to 2 billion US dollars in the context of developing the construction of the Port.
project. The loan provided by the Chinese right pi does not seem to have gone through sufficient and in-depth study and consideration regarding future payment options and steps. Sri Lanka’s inability to cope with this can be seen in the constraints contained in the financing of port maintenance which is fairly large and their inability to pay interest which leads to the creation of opportunities for them to fall into a very serious "Utang Trap". Then Sri Lanka negotiated to exchange debt for assets that Sri Lanka had to China, after reaching a mutual agreement, then in the end China took over the port of Hambantota for 99 years with an 85% stake, due to which China has the right to build, operate and even repair the port.

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