

Sri Lanka's Strategic Dilemma

Navigating Great-Power Rivalry in the Indo-Pacific

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Abstract

This article examines the evolving strategic significance of Sri Lanka in the context of the power rivalry between the United States, China, and India in the Indo-Pacific region. Sri Lanka's location and its role as a potential hub in the Sea Lines of Communication have attracted the attention of global powers. The economic crisis and decline in Sri Lanka's strategic maneuvers have left the country politically, economically, and strategically vulnerable. This vulnerability has intensified the competition between the US, China, and India for control over Sri Lanka's geopolitical resources. The article analyzes how Sri Lanka's interim administration, led by Ranil Wickremesinghe, strategically maneuvered between the three powers to secure economic assistance and political stability. However, while this hedging policy brings short-term benefits, it raises questions about the long-term costs for Sri Lanka's sovereignty and independence. The article discusses two possible scenarios for the future, one where Sri Lanka becomes a strategic battleground in the New Cold War, and another where it leverages the power rivalry for economic gains while compromising its autonomy.

Since ancient times, Sri Lanka a small island in the Indian Ocean region (IOR), has captivated global powers with its strategic location and wealth. Currently, the shift from a US-centered to an Asian-centered world order has intensified the great-power rivalry between the United States and China for global hegemony. As an island state situated close to strategic sea lines of communication (SLOC), Sri Lanka's role as a facility and service hub in the IOR has significantly enhanced its geopolitical significance in recent years. In addition to China and the United States, other regional and international powers such as Pakistan, Japan, and India also recognize the strategic importance of Sri Lanka in ensuring stability in the IOR. However, the COVID-19 pandemic, coupled with the recent economic crisis and the decline in Sri Lanka's strategic maneuverability, has made it challenging for Colombo to establish a consistent foreign policy. Consequently, Sri Lanka finds itself in an economically, politically, and strategically vulnerable state. This rapid decline has triggered a power struggle among the trio of the United States, China, and India to gain greater control over Sri Lanka's

geopolitical resources, including ports and economic corridors, while positioning themselves as the primary saviors of the nation.

Starting in September 2021, the Sri Lankan economy displayed early signs of collapse, yet the government disregarded warnings and continued to pursue an import-oriented consumer economy. As a result of the economic hardship, the popularity of President Gotabaya Rajapaksa among the public began to decline, leading to the emergence of the #GoHomeGota campaign and widespread nationwide protests known as *Aragalaya*, or the people's revolution.¹ While the Rajapaksa regime sought assistance from Beijing, New Delhi, and Washington, apart from India, the other two countries did not take a proactive stance in supporting his government's lifeline. In response to the request, India extended a credit line of USD 1 billion on humanitarian grounds to facilitate the purchase of essential commodities. This assistance eventually amounted to USD 4 billion by December 2022. Conversely, China ignored Rajapaksa's plea for financial aid due to ideological conflicts, particularly concerning his somewhat pro-India foreign policy strategy and the issues surrounding a botched fertilizer supply contract.² The United States, as expected, imposed additional conditions related to human rights and accountability. Despite international assistance, Rajapaksa failed to regain popularity among the public, becoming the first Sri Lankan president to resign from office. Consequently, his successor, Ranil Wickremesinghe, a six-time prime minister and a longtime political adversary of the Rajapaksa family, assumed the interim presidency through Parliamentary votes, forming a collaboration with Rajapaksa's political party to secure the presidency.

The new interim administration faced five dilemmas in its foreign policy and strategic decision making. These challenges included maintaining the long-standing nonaligned policy, restructuring debt, seeking global assistance to address the economic crisis, restoring democracy and the rule of law, and pursuing a balanced foreign policy. The political and economic instability in Sri Lanka created opportunities for the United States, China, and India to establish a stronger strategic presence in the country than ever before.

Unlike the Rajapaksa regime, Wickremesinghe recognized the interests of the trio in Sri Lanka's strategic location as a favorable factor for his administration. The first major strategic deadlock emerged during a China–India confrontation

¹ Nirupama Subramanian, "Aragalaya: Sinhalese for 'struggle', now synonymous with the movement that led to the fall of the government in Sri Lanka," *Indian Express*, 20 July 2022, <https://indianexpress.com/>.

² Arjita Mishra, "India extends USD 1 billion line of credit to Sri Lanka," *India Today*, 18 March 2022, <https://www.indiatoday.in/>.

when the PLA Navy surveillance vessel *Yuan Wang 5* requested refueling at a facility in Sri Lanka.³ The arrival of what was perceived to be a Chinese spy vessel posed a threat to India's Eastern and Western naval commands and its natural rights to dominate the IOR without the fear of external interference. This situation was also symbolically significant for China, showcasing its access to the Port of Hambantota, which is managed by China Merchants Port Holdings Company Limited (CM Port), and its growing ability to project power in the IOR.⁴

Wickremesinghe, a political strategist akin to Machiavelli in Sri Lanka, managed both parties through a hedging strategy, granting exclusive strategic privileges to both China and India. For instance, Sri Lanka emphasized that the arrival of the research vessel depended on mutual understanding, reassuring India that it had nothing to worry about. Ultimately, China was able to dock its ship without facing strong confrontation from either Sri Lanka or India. As a result, Wickremesinghe's regime achieved its first diplomatic victory by resolving the crisis and securing win-win outcomes.

During a period of economic uncertainty, India swiftly gained the trust of the Sri Lankan public and government. Taking advantage of this, Wickremesinghe's administration extended strategic favors to India. To address India's strategic concerns, Sri Lanka granted one of India's long-standing desires by providing access to the Port of Trincomalee through the Trincomalee oil tank redevelopment agreement. Furthermore, the Indian business mogul and close political ally of Prime Minister Modi, the Adani Group, secured several critical projects in Sri Lanka, particularly in the energy and construction sectors. This allowed India to safeguard its interests in Sri Lanka through involvement in the energy and power sector, setting it apart from other parties.⁵

The US, a significant ally of previous administrations under Wickremesinghe, played a silent yet crucial role in facilitating a smooth power transition in Sri Lanka during the period of public unrest. While urging the Sri Lankan administration to prioritize human rights and democracy, the US focused on supporting economic recovery by providing substantial economic and humanitarian aid

³ Hasith Kandaudahewa, "Yuan Wang 5-Sri Lanka Vs. China Vs. India?," interview by Faraz Shauketaly, *Newsline*, 31 July 2022, <https://www.youtube.com/>; and Meera Srinivasan and Ananth Krishnan, "Chinese vessel Yuan Wang 5 reaches Sri Lanka's Hambantota port," *The Hindu*, 16 August 2022, <https://www.thehindu.com/>.

⁴ Hasith Kandaudahewa, "Sri Lanka China Relations in 21st Century?," *CGTN Global Watch*, 9 January 2022, <https://www.youtube.com/>; and Kandaudahewa, interview.

⁵ Lasanda Kurukulasuriya, "The Geopolitics of Sri Lanka's Energy Crisis," *The Diplomat*, 16 February 2023, <https://thediplomat.com/>.

amounting to nearly USD 240 million within a short period. Additionally, the US backed Sri Lanka's appeal to obtain an IMF bailout package, demonstrating its ability to support countries like Sri Lanka and fill the power vacuum resulting from China's strategic drift away from the country. It can be argued that in exchange for the US's financial support, Wickremesinghe's regime agreed to create a favorable strategic environment for the US in the future.

The Wickremesinghe administration did not limit itself to engaging only with the trio. Instead, it extended an invitation to Japan for progressive involvement in Sri Lanka's strategic infrastructure projects, with a particular emphasis on the Trincomalee Port and Colombo West Terminal.⁶ This invitation was timely for Tokyo, as it provided an opportunity for Japan to re-establish its presence in Sri Lanka's strategic sphere following the diplomatic confrontations during the Rajapaksa regime. Through this engagement, Japan sought to form a deterrent posture against China in collaboration with its Indo-Pacific partners, India and the United States.

Overall, the Wickremesinghe regime swiftly demonstrated its willingness to offer strategic benefits to all Indo-Pacific powers by promoting Sri Lanka's hedging foreign policy. In other words, any power capable of providing relief to overcome economic difficulties could gain uninterrupted access to strategic resources, ports, land, and other resources, thereby influencing or balancing the power dynamics among Indo-Pacific actors. For example, China could create strategic concerns for India and the United States by utilizing its strategic resources in Sri Lanka, particularly those from the Port of Hambantota or Colombo Port City. Similarly, India or the United States, or both, could pursue similar strategies against China by leveraging their access to Sri Lanka's western and eastern ports, namely the Colombo West Terminal and the Port of Trincomalee.

From the Sri Lankan perspective, this approach may bring certain benefits as it continues to appease Indo-Pacific powers through the country's geographical location, in exchange for economic advantages. By adopting a hedging strategy, Sri Lanka can attract competitive investments and obtain assistance from Indo-Pacific powers to overcome its financial difficulties. While there may be strategic pressures, Sri Lanka can diplomatically manage them by leveraging its resources among these powers. However, the question remains: at what cost?

The author foresees two potential scenarios in the future. The first scenario involves the intensification of the existing strategic rivalry between the US-centered

⁶ Sulochana Ramaih Mohan, "Japanese visit Trinco Port despite two corporations withdrawing," *Ceylon Today*, 25 February 2023, <https://ceylontoday.lk/>.

camp and China, reaching a new dimension where parties are heavily armed and prepared for various forms of warfare, both conventional and unconventional, in the Indo-Pacific region. In this scenario, Sri Lanka could become a vital strategic battleground for the future New Cold War. In other words, Sri Lanka could serve as a litmus test for the competing powers to assess their military and strategic capabilities against each other in future conflicts. Nevertheless, Sri Lanka could also act as a balancer between the Indo-Pacific powers, preventing them from directly or indirectly engaging in warfare against each other in the future. For example, Sri Lanka could establish a strategic investment forum that facilitates equal sharing of strategic assets between the US-centered camp and China. This would enable both parties to cooperate and achieve mutually beneficial strategic advancements.

The second scenario suggests that Sri Lanka could leverage the strategic rivalry between the US-led camp and China to its advantage. In other words, Sri Lanka could secure competitive benefits wherein the involved powers provide crucial support to the country's crumbling economy, including investments, debt relief, restructuring, and international backing. An example of this is the recent USD 2.9 billion International Monetary Fund bailout package granted to Sri Lanka in late March 2023, which can be attributed to Colombo's adherence to a hedging policy. However, this same policy may jeopardize Sri Lanka's sovereignty and independence, as hedging comes at a high cost for smaller powers like Sri Lanka, which possess limited bargaining power in international politics. Considering that China already enjoys operational freedom at the Port of Hambantota, one may wonder what will happen if the US-led camp demands further operational freedom at the remaining three existing naval ports, namely Colombo, Trincomalee, and Kankesanthurai, where they are already investing and developing infrastructure. Consequently, Sri Lanka could potentially become the first island state to voluntarily relinquish its natural access to naval ports across the country, which would be a tragic outcome.

Conclusion

In conclusion, Sri Lanka finds itself at a critical juncture where its strategic significance and economic vulnerability have attracted the attention of major Indo-Pacific powers. By adopting a hedging foreign policy, the country has managed to secure investments, economic assistance, and relief from various players in the region. However, this approach comes with risks and costs. Sri Lanka must navigate the delicate balance between appeasing competing powers and safeguarding its sovereignty and independence.

Looking ahead, two potential scenarios emerge. Sri Lanka could either become a strategic battleground in the escalating rivalry between the US-centered camp and China, or it could leverage this rivalry to its advantage, gaining support for its economic recovery. Whichever path unfolds, Sri Lanka's ability to act as a balancer and prevent direct conflicts between major powers will be crucial.

It is essential for Sri Lanka to carefully consider the long-term implications of its hedging strategy. As negotiations continue and investments pour in, the country must safeguard its national interests and ensure that it does not compromise its sovereignty. Balancing economic benefits with strategic autonomy will be paramount.

Ultimately, the choices made by Sri Lanka in the coming years will shape its future trajectory. The island nation must carefully navigate the complexities of the Indo-Pacific power dynamics, leveraging its strategic position while safeguarding its national sovereignty. By doing so, Sri Lanka can secure its economic recovery, maintain stability, and emerge as a resilient player in the ever-evolving geopolitical landscape of the IOR. ✪

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