

Spotlight: Econ Op-eds in Summary

Week ended 09th December '20

In Summary

The underneath contains summaries of the articles given above, including key extracts from these articles.

1. Facts and Fiction of Chinese investments Its economic projects are not bad; rather the discourse is heavily politicised

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- One of the main complaints of Chinese support is the Chinese debt trap and the supposed predatory nature of Chinese investments. However, data shows that this is not the case for Sri Lanka where only 10% of the country's debt being from China in comparison to the 47% of debt obtained from market borrowings.
- Another claim is that Chinese projects deprive Sri Lankans of job opportunities. However, data shows that Chinese projects recruit substantial numbers of local workers, although the figures tend to vary by the stage of the project. There are also concerns on geopolitics, that view China's geo-economic presence with a different lens.
- Despite benefits Sri Lanka can enjoy from Chinese funding these investments are often criticized due to them being highly politicized. This is not an issue unique to Sri Lanka and neither it is unique to a political party. However, the country needs to avoid politicizing investments, and instead pay attention to the economic pros and cons to continue with development.

Why are Chinese investments regularly criticised, demonised, and viewed as a threat in political and civil society talk shops? There is an irony in anti-China invective in a country that is badly in need of foreign capital, as the COVID- battered economy, struggling even before the pandemic, is set to record a negative growth while its meagre foreign reserves are diminishing as the government is using them to service foreign debt.

There are both facts and fiction behind the opposition to Chinese investment.

First, fiction since that accounts for a good part of not just local but also international discourse about Chinese investments.

One such complaint is the Chinese debt trap and the supposed predatory nature of Chinese investments. But, as it has been repeatedly stressed by the non-partisan economists and financial data of the Central Bank, Chinese loans are the least cause of Sri Lanka's debt crisis. The main culprit is Sri Lanka's oversized past borrowing from international financial markets at commercial rates through the issuance of sovereign bonds.

The external debt stock of the government at the end of 2019 amounted to US\$34.7 bn, plus US\$21 bn borrowed by State-Owned Enterprises (SOEs) using sovereign guarantees. Effectively, the total foreign debt is US\$55.9 bn. However, Sri Lanka's debt to China accounts for 10% of the overall foreign debt of the government, as same as its debt to Japan. And the ADB, the largest single debtor owns 13%. Whereas 47% of Sri Lanka's foreign debt stock is in market borrowing, taken through the issuance of sovereign bonds (External Resource Department Sri Lanka, 2020). Unlike the Chinese loans, around 80% of which are of a concessionary nature come with a long repaying period, including a grace period, sovereign bonds are short term borrowing, obtained at a higher interest. Now with

credit rating agencies have downgraded Sri Lankan sovereign bonds to junk, the usual practice of issuing fresh bonds to roll over the matured debt is not feasible, thus exacerbating the debt crisis.

China has nothing to do with Sri Lanka's current state of external finances. Probably, without the Chinese loans, things would have been worse, though certain other projects such as the Chinese-built Mattala airport would not have been missed.

Then, another claim, which was also highlighted by the young MP is that **Chinese projects employ Chinese nationals and deprive Sri Lankans of job opportunities**. Chinese projects in Sri Lanka are primarily building infrastructure and generates jobs which are either seasonal or lasts for a specific phase of the project. They are not factories and industrial complexes that provide permanent mass employment. That Chinese projects overwhelmingly employ Chinese nationals is also an oft-cited exaggeration. According to a study on labour and environmental conditions of BRI projects in Sri Lanka by Pabasara Kannangara & Divya Hundlani of the Lakshman Kadirgama Institute, **there are currently only about 7,500 Chinese workers in Sri Lanka, accounting for just 0.1% of the total Sri Lankan labour force**. Chinese projects recruit substantial numbers of local workers, although the figures tend to vary by the stage of the project. For instance, **the now completed and operational Hambantota port employs about 900 workers, of which less than 4% are Chinese**. The Port City Colombo, which is still being constructed, has roughly 1,637 workers, of which about 22% are Chinese.

Sri Lankan labour market itself suffers from a major shortage of construction workers as there is little domestic appeal for such employment and the majority of blue-collar local workers head for the Middle East, and Korea for better remuneration. According to the Chamber of Construction Industry of Sri Lanka, the country needs 400,000 workers to meet the shortfall in the construction sector. There were calls earlier to bring workers from Bangladesh.

Then there are broad generalizations of geopolitics, that view China's geo-economic presence as a part of a Chinese grand strategy for the dominance in the Indian Ocean region and making of a Sinosphere. Those are as creative as the application of IR theories to real life politics can get. But, for the time being, China's projects are driven by economic calculations, and rather than being geopolitical, they at best mercantilist.

Then what makes them so distasteful in the political discourse. The reason is politics itself. The discourse on China and its investment in Sri Lanka is exceedingly politicized. It is politics that dictates and overshadow the debate. That is not unique to Sri Lanka; from Pakistan to the Maldives and Myanmar to Hungary, domestic politics have found a case for or against Chinese investments. In Sri Lanka, this is mainly due to the strong association of the Rajapaksas with the Middle Kingdom.

Notwithstanding, its repeated claims that China treats all Sri Lankan governments equally; Beijing has a soft corner for the Rajapaksas. That was laid bare when China prematurely congratulated Mahinda Rajapaksa soon after he was appointed as prime minister during the constitutional coup.

Some of the Chinese loans were also invested to advance Mr. Rajapaksa's dynastic ambitions in his home-turf of Hambantota. **Due to the Rajapaksa's strong association with China, the political opposition has viewed Chinese development projects and at times, China's Sri Lankan relations, as an extension of the Rajapaksa regime, which they are not**. That fallacious thinking, however, explains the incrimination of Chinese development projects in the election platforms during 2015, and subsequent suspension of some of the major development projects after Yahapalanaya came to power.

That again was a self-harming approach, and when the election fervor subsided and the economy was on a downward spiral, the Yahapalanaya rushed to mend fences, and even compensated the China Harbour Engineering, the builder of the Colombo Port city, by allowing it to fill additional two hectares of sea-land as compensation for the losses incurred due to the suspension of construction work. When the opposition politicians and civil society captains regurgitate the same old invectives that you have heard repeatedly in the past, it is the same old politics as usual.

Be it Chinese investments or American grants, politically charged invectives are a self-harming strategy. The economy should be disengaged from ups and downs of dog-eat-dog politics at home. The failure to do so for over seven-decades and the lack of clarity and consensus in economic policy, as a result, is the second most crippling reason, only second to the three decades of Eelam war, which kept Sri Lanka's economy locked in sub-par economic growth.

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