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China in the Maldives and Sri Lanka: Distant Discord?

- Wang Yi to visit the Maldives and Sri Lanka
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Welcome to the newsletter of [Diplomat Risk Intelligence](#), the research and consulting division of The Diplomat, your go-to outlet for definitive analyses from and about the Asia-Pacific.

This week's Asia Review focuses on complications in China's relationship with the Maldives and Sri Lanka—strategically critical nations long suspected to be prizes for Beijing as it seeks a foothold in the Indian Ocean. We take a look at the state of both countries' economies, and their growing debt travails, ahead of Wang Yi's visit to Colombo and Male, and probe what Sri Lankan voices think of China. Plus: central government debt trends of the Maldives and Sri Lanka, a look at the global arms business and military expenditure patterns, and narratives about globalization.

THE BIG ONE

Chinese Foreign Minister to Visit Maldives and Sri Lanka Amid Economic Battles





Sri Lankan Prime Minister Mahinda Rajapaksa in meeting with Chinese Foreign Minister Wang Yi, Colombo, January 14, 2020.
— AP Photo, Eranga Jayawardena

On December 30, 2021 the Chinese foreign ministry [announced](#) Foreign Minister Wang Yi's upcoming visit to the Maldives and Sri Lanka, following his visit to Eritrea, Kenya, and Comoros from January 4 to 7. The visit, [mostly likely to take place](#) around the weekend and early next week, comes as [the Maldives and Sri Lanka complete 50 and 65 years, respectively](#), of ties with Beijing. The official state media of the Maldives [reports](#) that Wang will also pay a courtesy call on President Ibrahim Mohamed Solih and head the Chinese delegation as both sides hold official talks. A Sri Lankan newspaper [reports](#) that China-Sri Lanka talks will focus on matters of "mutual interest," with Beijing expected to offer several investment proposals to Colombo.

Wang's visit to Sri Lanka comes amidst an unresolved Sino-Sri Lankan spat over fertilizers.

Colombo [rejected](#) a shipment of organic fertilizers from a Chinese company, Qingdao Seawin Biotech, after the National Plant Quarantine Service (NPQS) found contamination and the state-owned Ceylon Fertilizer Company [blocked](#) payment on court order. Tensions escalated when the Chinese embassy in Colombo called for an international inspection of the shipment, and moved to [blacklist](#) the state-owned People's Bank for non-payment of dues. Despite repeated [assurances](#) from Minister of Agriculture Mahindananda Aluthgamage that Sri Lanka would not pay for the consignment, ultimately Colombo [agreed](#) to pay \$6.7 million to the Chinese company and buy fresh stocks of the fertilizer from the same company. Additionally, the Chinese company has [demanded](#) an extra \$8 million from the additional director of the NPQS as compensation for the loss and damage caused to the company.

Meanwhile, Sri Lanka is entangled in a deep economic crisis with forex reserves [dropping](#) to about \$1.6 billion in November 2021—the lowest since May 2009— which can sustain about one month of imports. Dwindling foreign currency reserves together with mounting debt, a [currency crisis](#), and high [inflation](#), have raised concerns about a possible [sovereign default](#). In the past, the [International Monetary Fund](#) has helped Sri Lanka overcome its economic travails, but the current Rajapaksa government seems to have turned to neighboring [India](#) and [China](#) for a bailout.

The Maldives' tourism-dependent economy was also [severely affected](#) by the COVID-19 pandemic, but it registered a strong [recovery](#) this year with [Asian Development Bank](#) projecting the Maldives's economy to grow by 15 percent in 2022. In 2020, Fitch Ratings [downgraded](#) the Maldives' long-term foreign currency issuer default rating to CCC but [improved](#) it to B- in 2021. Nevertheless, high debt remains a problem in the small island country as the country's public and publicly-guaranteed debt stood at [\\$5.6 billion](#) at the end of March 2021. [Official sources](#) indicate that the total government debt as a percentage of gross domestic output increased from 103% in the first quarter of 2021 to 108% in the second, mainly driven by high public debt.

Both the Maldives and Sri Lanka are a part of China's Belt and Road Initiative (BRI) and have received loans from Beijing under that rubric.

According to [analysis](#) by the Center for Global Development, both countries are also vulnerable to debt distress under BRI. (The Maldives is considered to be “highly vulnerable” while Sri Lanka is assessed to be “significantly vulnerable.”) Critics of BRI have pointed to a “Chinese debt trap” being laid out for both, specially [pointing](#) to Beijing acquiring the Hambantota port in exchange for debt relief and possibly using the facility for surveillance and military purposes, as an example.

However, others remain unconvinced of this line of thought. Scholars Lee Jones and Shahar Hameiri [trace](#) Sri Lanka’s “debt distress” to “excessive borrowing on Western dominated capital markets and structural problems” rather than Chinese loans. Although, the Maldives’ debt to China is estimated to be [78 percent](#) of its total external debt, financial analysts see no cause for [“undue alarm”](#) over China’s investment and debt portfolio in that country. The current government in the Maldives has [sought](#) to renegotiate its debt to China and with a handful of projects remaining, cautious borrowing can potentially mitigate the risk of being overburdened by debt.

To what extent Wang’s upcoming trip helps ameliorate some of the concerns Colombo and Male have about their economies—and economic and commercial relations with China—remains to be seen. But expect all sides to publicly put up a brave face and make a slew of high-minded announcements which may ultimately not amount to much.

BABEL

Sri Lankan Voices on China



Chinese workers at the Hambantota Port, around 160 kilometers from Colombo, January 30, 2008
— AP Photo, Gemunu Amarasinghe

China and Sri Lanka have maintained amicable relations in the past, but the uptick in Chinese investments in the small island nation has brought Beijing under more public scrutiny than before. What is interesting is that the Sri Lankan public remains split on what growing Chinese footprint in Sri Lanka could mean for their country.

On December 29, Ceylon Today, an English-language Sri Lankan daily newspaper, published an [article](#) by Samitha Hettige which advocates closer China-Sri Lanka relations, where Beijing is described as a “good

friend(s) with consistent economic policies, good trade practices and a win-win attitude.” Hettige wrote:

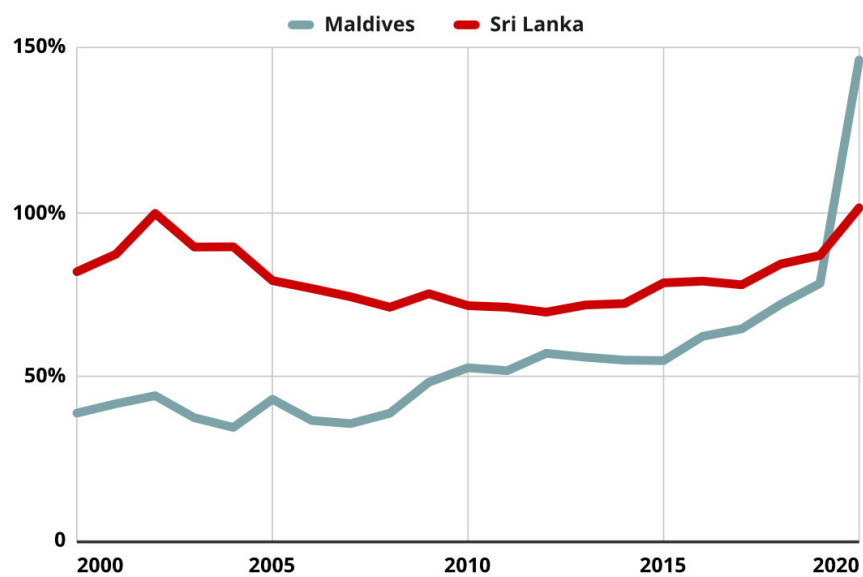
It is the duty of Sri Lanka to let those near and far know that Sri Lanka-China relations are for mutual benefit only and not to block the interests of any third party as Minister Wang emphasized during his visit in 2020.

However, not everyone in Sri Lanka holds such an optimistic view of China. Laksiri Fernando, [writing](#) in The Island—another English daily in Sri Lanka—on December 29 applauded the Chinese government’s economic successes but also highlighted the societal implications of “capitalism with Chinese characteristics” such as a widening income gap and growing corruption, among other problems. Fernando wrote:

China is also allowing big companies, including state companies, to exploit and cheat small and poor countries in Asia and Africa. Sri Lanka probably is one victim. These must be the Chinese characteristics of capitalism!

CHARTED WATERS

Central Government Debt of the Maldives and Sri Lanka



Central government debt of the Maldives and Sri Lanka as percentage of GDP, 2000-2020 — International Monetary Fund DataMapper. Graphics: DRI

FROM OUR STABLE

Global Arms Trends: What’s New?





A Foxhound Light Protection Protected Vehicle at a base in Helmand, Afghanistan.
— Flickr, Defence Imagery

The Stockholm International Peace Research Institute (SIPRI) released its annual report on the Top 100 Arms-producing and Military Services Companies in December. The report is an extremely valuable addition for all those interested in how the COVID-19 pandemic may—or may not—have affected global weapons sales. It is also a critical addition to SIPRI’s suite of quantitative defense analysis products, including the institute’s famed military expenditure database.

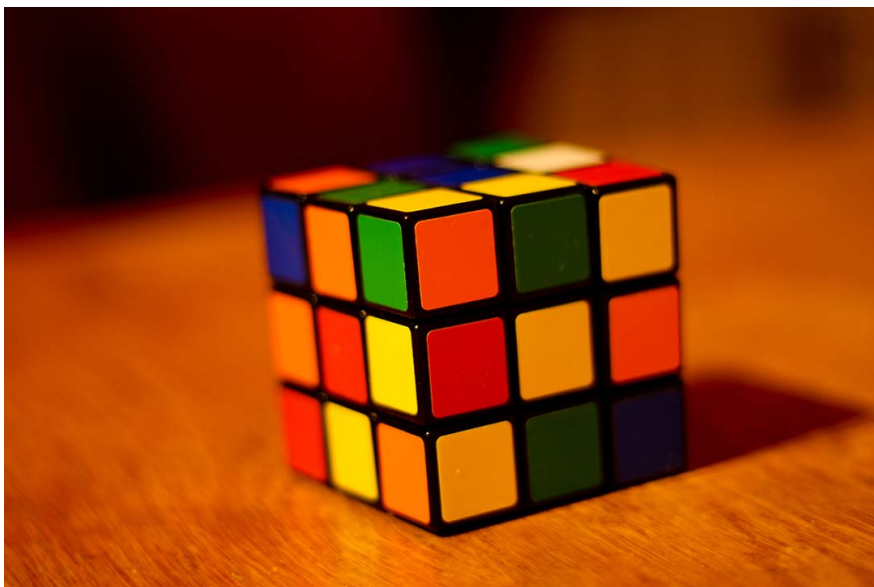
To discuss the latest SIPRI report on top arms sales companies around the world, as well as global trends in military expenditure, DRI Future Tense hosted Dr Lucie Béraud-Sudreau, Director of SIPRI’s Military Expenditure and Arms Production Programme. Her research interests focus on European and Asian arms trade, military spending and arms industry. Béraud-Sudreau was previously a fellow at the International Institute for Strategic Studies (IISS) and an analyst at the French Ministry of Armed Forces.

In conversation with DRI Director of Research Abhijnan Rej, Béraud-Sudreau talks about recent mergers and acquisitions trends in arms companies, the increasing role of technology giants, how COVID-19 pandemic, surprisingly, didn’t put much of a dent in the global arms business, the challenges in accurately measuring Chinese military expenditure, and much more.

[Listen to the podcast](#)

DIGESTIF

The Rubik’s Cube of Globalization Narratives



— Flickr, Rolf Venema

For around a decade and half—starting with the Global Financial Crisis of 2007-08—consensus around globalization has steadily frayed in many developed as well as developing countries. Admittedly, publics outside the Global North *always* has had a complicated relationship with globalization even before Lehman Brothers sank almost taking down much of the global economy with it, as they grappled with the social and political costs of economic interdependence and free flow of capital and labor.

What *has* changed since 2008, however, is how countries in the West that were once preeminent champions of globalization—the United Kingdom and the United States, in particular— now find themselves grappling with unexpected political and social externalities of free trade and mobility. Witness, as cases in point, Brexit and Trump.

Narratives are, essentially, stories we tell ourselves and others, stitching facts together in a way that represent our deeply-held beliefs. And stories have a vital sense-making function, allowing us to sift through facts to “see” one or more aspects of the world as a whole by introducing causal links between them.

When it comes to globalization, however, narratives abound.

The narrative one ascribes to or furthers mostly depends on one’s political beliefs and social, economic, and geographical circumstances. But not always. Often actors oscillate between narratives or use the same set of facts to simultaneously advance different narratives. Consider, as an example, the Trump Administration’s position on China and trade, whereby, on one hand, it blamed China for the woes of the American lower and middle classes, and portrayed Beijing’s gaming of economic and commercial rules of the road as a threat to U.S. national security, on the other.

In a recent book, two scholars sift through conversations about globalization around the world and identify six prominent narratives around it, which they term: the establishment “win-win” view; the “loss-loss”/global threats view; the right-wing and left-wing populist views; the geoeconomic view; and the corporate power view. It is, however, Anthea Roberts and Nicolas Lamp’s conceptual framing in [“Six Faces of Globalization: Who Wins, Who Loses, and Why It Matters”](#) that makes their approach particularly illuminating, as they frame these contending positions on globalization as corresponding to six sides of a Rubik’s Cube.

Indeed, Roberts and Lamp write in the introductory chapter of their work: “...the growing multiplicity of arguments about who wins and who loses from economic globalization reminded us of the confusion of a scrambled Rubik’s cube.” Their book is a persuasive attempt to unscramble it and restore order to discourses about globalization. And by means of doing so, they present an intellectually-rich, interdisciplinary toolkit that can be used to probe a variety of contemporary security, economic, and social challenges.

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