

India's Investments in Sri Lanka: Navigating the Perils and Prospects—Lessons Learned and the Path Forward

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Abstract

India's investments in Sri Lanka have been profoundly influenced by the island nation's strategic position in the Indian Ocean, particularly in the context of escalating geopolitical tensions arising from China's expanding influence through initiatives such as the Belt and Road Initiative (BRI). Chinese investment, particularly the Hambantota Port lease, has created a complex geostrategic situation that has deepened Sri Lanka's financial reliance on Beijing and increased India's security concerns. This dependency raises the risk of China turning the port into a military outpost, while Sri Lanka's overreliance on Chinese loans has led to economic instability, humanitarian issues, and social unrest, highlighting the unsustainable nature of China's debt-trap diplomacy. In contrast, India has emerged as a principal rescuer, reaffirming its vital role in Indo-Sri Lankan relations. The election of communist leader Anura Kumara Disanayake presents a potential turning point for India's approach to Sri Lanka; however, India remains an indispensable partner for the island's growth, offering viable and sustainable economic alternatives. That said, Sri Lanka may continue to engage in diplomatic manoeuvres, at times prioritising its own interests over India's. In this complex diplomatic environment, India must stay alert while strengthening engagement and addressing Sri Lanka's urgent economic challenges. A comprehensive strategy, focused on enhancing multilateral collaborations and strategic investments in key sectors, must be both measured and well-calculated. By learning from Sri Lanka's past missteps, India can adopt adaptive strategies to assert its influence while supporting regional stability objectives.

Key words: Indo-Sri Lanka Relations; Indian Investment in Sri Lanka; Strategic Investment; Debt-trap Diplomacy; Security Concerns in the Indian Ocean Region (IOR).

1. INTRODUCTION: NAVIGATING THE GEOPOLITICAL MINEFIELD

Sri Lanka's geopolitical positioning has long been a sensitive issue for India, especially as China's influence in the region grows. The increasing proximity between Sri Lanka and China is rooted in Beijing's investment strategies, most notably through the Belt and Road Initiative (BRI). The Hambantota Port, a major asset leased to China for 99 years, has become a symbol of Chinese control in the Indian Ocean¹. This development is viewed as a potential threat by India, particularly because China's "debt-trap diplomacy" has left Sri Lanka heavily indebted. Beijing's high-interest loans, especially linked to significant infrastructure projects, have weakened Colombo's economic autonomy, manifesting in the 2017 transfer of Hambantota Port to China after Sri

¹ Ganguly, 2024. What Sri Lanka's election means, *Foreign Policy*, Sept. 24.;

Lanka failed to meet its repayment obligations². For India, the port's strategic position on vital maritime routes connecting Europe, Asia, and the Middle East presents a real security risk. China could exploit this position to establish a stronger military foothold in the region, further destabilising India's security environment³. In response, India has stepped up its efforts to counter China's growing influence, pushing for sustainable and transparent investments while strengthening diplomatic relations with Colombo. The recent election of Anura Kumara Disسانayake adds complexity to these dynamics. His administration faces the dual challenge of balancing relations with both India and China, with India's swift outreach signalling the importance of keeping Sri Lanka within its strategic orbit⁴. The stakes are high, as failure to provide a competitive alternative could allow China to deepen its influence, thus challenging India's security and economic interests in the Indian Ocean.

The New Government in Sri Lanka: A Delicate Balancing Act: The election of Anura Kumara Disسانayake poses a distinct challenge for India. Disسانayake, who represents the Janatha Vimukthi Peramuna (JVP), has historically advocated anti-India sentiments, particularly during the 1980s, when the Indian Peace Keeping Force (IPKF) was deployed in Sri Lanka⁵. His Marxist leanings and party's ideology raise concerns in New Delhi, as his leadership could favour China's continued dominance in the region. Yet, the current economic crisis in Sri Lanka, marked by a staggering total external debt, as of the first quarter of 2024, Sri Lanka's total external debt stands at approximately \$55.38 billion USD⁶—of which as of different estimates a large sizable of percentage is owed to China—requires a pragmatic approach⁷. This debt, largely accrued through BRI-related infrastructure projects, binds Sri Lanka to China's economic sphere, diminishing its financial flexibility and increasing Beijing's leverage. Despite these historical and ideological tensions, Disسانayake has indicated a willingness to engage with India, recognising the importance of balanced relations for Sri Lanka's economic recovery. India has already extended \$4 billion in emergency credit lines to Colombo⁸, alongside other forms of assistance in key sectors such as energy and trade, providing a critical lifeline during Sri Lanka's financial meltdown in 2022⁹. However, the contest between India and China for influence in Sri Lanka will likely intensify. China, which dominates Sri Lanka's debt landscape¹⁰, will continue to leverage its financial influence, holding 11-12% of the country's external debt¹¹. Disسانayake's administration, while seeking to maximise foreign support, may strategically play both nations against each other, securing the best possible deals for its economic recovery.

2. THE CHINESE INVESTMENT FOR INDIA-ENCIRCLEMENT VS. INDO-SRI LANKA MULTILATERAL ENGAGEMENT BUT THE CONTESTED PARAMETERS

China's growing investments in Sri Lanka have become a significant point of concern for India, which views these actions as part of Beijing's broader encirclement strategy

² Francis & Pathi, 2024. Sri Lanka's new leader, *AP News*, Sept. 25.;

³ Sharma, 2024. Sri Lanka election, *Business Standard*, Sept. 26.;

⁴ Wason, 2024. A new chapter, *Hindustan Times*, Sept. 24.;

⁵ Sharma, 2024. Sri Lanka election, *Business Standard*, Sept. 26..

⁶ CEIC Data. (n.d.). *Sri Lanka national government debt*.

⁷ Ganguly, 2024. What Sri Lanka's election means, *Foreign Policy*, Sept. 24.;

⁸ Jayasinghe, U. 2023. India extends \$1 bln credit line...., *Reuters*, May 9.;

⁹ Kapoor, 2024. India's troubled neighbourhood, *ETV Bharat*, Sept. 25.;

¹⁰ Moramudali, U., & Panduwawala, T. 2022., Demystifying China's role...., *The Diplomat*, Dec. 20.;

¹¹ Ganguly, 2024. What Sri Lanka's election means, *Foreign Policy*, Sept. 24.;

aimed at diminishing India's regional influence. The lease of Hambantota Port, combined with China's broader infrastructure projects, is perceived by New Delhi as a strategic manoeuvre under the 'String of Pearls' strategy, designed to encircle India with ports and military bases across the Indian Ocean¹². Hambantota's strategic location near vital maritime chokepoints heightens India's concerns, as the port offers China the ability to monitor critical sea lanes that carry a substantial portion of India's energy supplies¹³. The port's dual-use potential—ostensibly civilian, but with latent military capabilities—adds to the fears of a growing Chinese military presence. Dissanayake's government, despite its economic ties with China, remains acutely aware of the need to maintain balanced relations with India, especially given Sri Lanka's dependence on Indian petroleum imports, which account for nearly 80% of its energy supply¹⁴. This recognition of mutual dependence has encouraged Colombo to signal a willingness to deepen ties with India, despite the heavy Chinese financial footprint¹⁵.

India, under its "Neighbourhood First" policy, has been proactive in countering China's encroachment. Prime Minister Modi's early diplomatic engagement with the Dissanayake administration reflects India's intention to sustain its influence in Sri Lanka. This has been accompanied by strategic investments in renewable energy and key infrastructure projects as viable alternatives to China's debt-driven projects¹⁶. However, the complex interplay of Chinese and Indian interests in Sri Lanka is far from straightforward. Dissanayake's administration could exploit this competition, leveraging both powers to maximise benefits for Sri Lanka. While China's debt-trap diplomacy poses a long-term risk to Colombo's sovereignty, India's continued investments in critical sectors like infrastructure and renewable energy provide a stabilising counterbalance¹⁷. The broader geopolitical implications of this contest go beyond bilateral ties, influencing the Indo-Pacific region where India seeks to assert itself as a counterweight to China's expanding influence¹⁸. Maintaining Sri Lanka within India's strategic fold will require constant adaptation and sensitivity to the evolving political landscape under Dissanayake's leadership, ensuring India's long-term security and economic interests are protected amidst growing Chinese assertiveness. This dynamic creates a challenging scenario for India's strategic planning. New Delhi must not only contend with China's entrenched financial presence but also recognise that Colombo's leadership will likely navigate this complex situation to its own advantage. India, therefore, must recalibrate its approach, offering more than just financial aid. Diplomatic finesse and long-term investment strategies, aligned with Sri Lanka's economic priorities, will be crucial to maintaining influence and protecting its geopolitical interests.

2.1. Chinese Investments under the Belt and Road Initiative (BRI) in Sri Lanka: The Geostrategic Game Plot

Sri Lanka's pivotal location in the Indian Ocean has made it a focal point in China's Belt and Road Initiative (BRI), a critical part of Beijing's grand strategy to secure key maritime routes vital for global trade and energy supply¹⁹. The BRI has led to significant Chinese-funded infrastructure projects in Sri Lanka, including the

¹² Perozo, 2024. Sri Lanka's new government, *Yahoo Finance*, Sept. 26. ;

¹³ Sharma, 2024. Sri Lanka election, *Business Standard*, Sept. 26. ;

¹⁴ Ganguly, 2024. What Sri Lanka's election means, *Foreign Policy*, Sept. 24. ;

¹⁵ Kapoor, 2024. India's troubled neighbourhood, *ETV Bharat*, Sept. 25. ;

¹⁶ Wason, 2024. A new chapter, *Hindustan Times*, Sept. 24. ;

¹⁷ Sharma, 2024. Sri Lanka election, *Business Standard*, Sept. 26. ;

¹⁸ Francis & Pathi, 2024. Sri Lanka's new leader, *AP News*, Sept. 25. ;

¹⁹ *The Mint*. (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...;

development of ports and roadways, with substantial financing provided by Chinese lenders²⁰. However, while these projects have contributed to economic development, they have also deepened Sri Lanka's debt to China, leading to concerns about the nation's financial sovereignty²¹. The strategic implications extend beyond economic benefits, as China's growing military presence and control over key infrastructure, such as Hambantota Port, underscore its ability to use economic investments to achieve geopolitical aims. This shift from economic engagement to military leverage is particularly concerning, as it threatens Sri Lanka's autonomy and poses risks to regional stability²². The growing alignment of China's economic interests with its military ambitions in Sri Lanka highlights the larger strategic contest in the Indo-Pacific, especially for India, whose security and influence are increasingly challenged by these developments²³.

2.1.1. Chinese Investment in Sri Lanka: Scale of Investment and Calculated

Intention: China's investment in Sri Lanka goes beyond infrastructure; it is part of a calculated geopolitical agenda aimed at asserting dominance in the Indian Ocean Region (IOR), a key global maritime trade corridor²⁴. With more than 60% of the world's shipping passing through these waters, China has strategically positioned itself through large-scale investments in Sri Lanka's ports and other infrastructure²⁵. Notable projects include the Hambantota Port, where China acquired an 85% stake for \$974 million, and the Colombo International Container Terminal (CICT), both of which serve China's commercial and strategic interests²⁶. The leasing of Hambantota Port to China on a 99-year lease has heightened fears of military expansion, as such investments could serve dual-use purposes, facilitating military operations under the pretext of economic development²⁷. The strategic location of these investments along key maritime routes raises concerns among Indo-Pacific stakeholders, particularly India, Japan, Australia, and the United States, all of whom rely on secure sea lanes for their economic and security interests. The potential militarization of Chinese infrastructure in Sri Lanka threatens to destabilize the region and disrupt the balance of power in the IOR²⁸.

2.1.2 Chinese Investment in Sri Lanka: Strategic Military Encroachment:

Sri Lanka's acceptance of Chinese investments, initially motivated by promises of economic growth, has led to its increasing role as a pawn in China's broader geopolitical strategy. The Hambantota Port and other Chinese-backed projects have given Beijing significant economic and strategic leverage over Sri Lanka, raising alarm among global powers, particularly India²⁹. The strategic placement of Chinese infrastructure, combined with the possibility of military applications, demonstrates China's intent to consolidate its influence in South Asia. International stakeholders, including Japan, the United States, and ASEAN nations, are concerned that China may use these projects to project

²⁰ Chatham House. 2020. Chinese investment and the BRI in Sri Lanka. March 24. .

²¹ The Mint. (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...;

²² The Print. (2022). China's 'debt-trap diplomacy' behind Sri Lanka crisis: Report. April 17.;

²³ The Mint. (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...;

²⁴ Embassy of Sri Lanka at Türkiye, n.d. Sri Lanka's Debt Crisis: The Chinese Debt Trap Explained...

²⁵ Nandakumar, V. 2022. Sri Lanka's Strategic Ambiguity Won't Hold, *The Diplomat*, Aug. 19; Kandaudahewa, H. 2023. Sri Lanka's strategic dilemma...*Journal of Indo-Pacific Affairs*.; Abeyagoonasekera, A., 2021. *Sri Lanka and the new Cold War...*; *LSE Conflict and Civil Society Research Unit*, Jan. 12.; & Moramudali, U., 2021. *The economics of the China-India-Sri Lanka triangle...*; *The Diplomat* May 1.;

²⁶ The Mint. (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...; and, Wu, X. (2017). China Merchants to take over Sri Lanka port. *China Daily*, July 26.;

²⁷ The Print. (2022). China's 'debt-trap diplomacy' behind Sri Lanka crisis: Report. April 17. .

²⁸ The Mint. (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...;

²⁹ Ibid.

military power across the region, mimicking its aggressive territorial strategies in the South China Sea³⁰. For India, the growing Chinese presence represents a direct threat to its sphere of influence and security in the IOR. As China continues to deepen its economic and military ties in Sri Lanka, the possibility of military encroachments becomes increasingly likely, necessitating a vigilant response from India and its regional allies to counterbalance Beijing's expanding influence³¹.

2.1.3 Military Encroachment: Long-Term Implications: The long-term consequences of China's investments in Sri Lanka are becoming clearer, as these projects, though economically beneficial in the short term, have strategically positioned China to exert both economic and military influence in the IOR. The Hambantota Port and Colombo Port City exemplify this dual-use strategy, where economic investments are leveraged for strategic military gains³². China's acquisition of an 85% stake in Hambantota Port for \$974 million³³ and the subsequent 99-year lease underscore the extent of its control over this critical maritime infrastructure³⁴. Such investments not only grant China economic leverage but also offer strategic footholds in the region. For Indo-Pacific nations, this is particularly concerning, as these developments mirror China's actions in the South China Sea, where economic projects have been used to assert military dominance³⁵. The militarization of infrastructure projects in Sri Lanka threatens regional stability and could disrupt global maritime security, presenting a direct challenge to India's influence in the IOR. India's strategic interests require careful monitoring of these developments to safeguard its security and counter China's growing influence³⁶.

3. CAUTIONARY TALES OF SRI LANKA'S OVERDEPENDENCE ON CHINESE LOANS: ECONOMIC BREAKDOWN, POLITICAL INSTABILITY, AND HUMANITARIAN CRISIS

Sri Lanka's overdependence on Chinese loans serves as a cautionary tale of the risks associated with debt-trap diplomacy, where the promise of infrastructure development has instead deepened economic instability, political unrest, and a humanitarian crisis. By 2022, Sri Lanka owed China approximately \$6 billion, a critical portion of its external debt, which has led to severe financial strain and a depletion of foreign reserves³⁷. The 99-year lease of Hambantota Port and with extendable provision of another 99 years³⁸ further exemplifies the geopolitical risks tied to unsustainable debt, where national sovereignty is compromised in exchange for short-term financial relief³⁹. This dependence has pushed the country into an economic spiral, exacerbating inflation, social unrest, and shortages of essential goods, highlighting the broader consequences of reliance on strategic loans from China⁴⁰.

³⁰ *The Print*, (2022). China's 'debt-trap diplomacy' behind Sri Lanka crisis: Report. April 17

³¹ Sharma, 2024. Sri Lanka election, *Business Standard*, Sept. 26. ;

³² *Embassy of Sri Lanka at Türkiye*, n.d. (all): (i) Investment Opportunities...; (ii) Sri Lanka's Debt Crisis...; & (iii) Sri Lanka's Economic Potential...;

³³ Wu, X. 2017. China Merchants to take over Sri Lanka port. *China Daily*. July 26. ;

³⁴ *The Mint*. (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...;

³⁵ *The Print*, (2022). China's 'debt-trap diplomacy' behind Sri Lanka crisis: Report. April 17

³⁶ Francis & Pathi, 2024. Sri Lanka's new leader, *AP News*, Sept. 25...;

³⁷ *Times of India*, 2022 (all): (i) Sri Lanka's Political Crisis...July 16; (ii) Explainer: What's happened and... July 13; & (iii) Sri Lanka requests IMF for...April 19; & (iv) Explained: How Sri Lanka's economic... May 9...;

³⁸ Moramudali, U. 2020. The Hambantota Port Deal... *The Diplomat*, Jan. 1...; and, Wong, C. 2021. China can extend Hambantota port lease...; *South China Morning Post*, Feb. 25...;

³⁹ *The Mint*. (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...;

⁴⁰ *Asia One*, 2022 (all): (i) India To Strengthen... Aug. 12...; & (ii) India's Strategic Response, n.d...;

3.1 Impact of Chinese Loans on Sri Lanka's Economy

Sri Lanka's infrastructure projects, heavily financed by Chinese loans, have pushed the country into a paradoxical situation where advancements in infrastructure have simultaneously deepened its financial dependence on China. China has emerged as the largest bilateral creditor to Sri Lanka, having extended approximately \$7 billion of the nation's total foreign debt, which stands at around \$42 billion as of 2022^{41/42}. This overreliance on Chinese financing reflects not only poor economic management but also exposes the dangers of becoming entangled in China's "debt-trap diplomacy"⁴³. With Sri Lanka's overall debt surpassing \$51 billion, the consequences of this dependency have rippled through the economy, eroding financial stability and political sovereignty. This precarious situation underlines the broader risks of relying on foreign investors like China, whose strategic loans come with hidden geopolitical intentions, leaving Sri Lanka caught in a cycle of debt and vulnerability.

3.2 Chinese Loans and Sri Lanka's Consequences

The ramifications of overdependence on Chinese loans are starkly visible in Sri Lanka's current economic and humanitarian crisis. The surge in debt has led to a significant depletion of foreign reserves, rendering the country incapable of meeting its debt obligations and accelerating economic decline. This fiscal turmoil has resulted in hyperinflation, with currency devaluation at an astounding 80%, and the emergence of a humanitarian disaster⁴⁴. Sri Lanka's plight worsened when China, in a moment of critical financial need, refused to restructure debt, exposing the complex power dynamics at play⁴⁵. The lack of timely financial aid from China reinforces the notion that Chinese loans often serve strategic geopolitical purposes rather than purely developmental goals. As the crisis deepened, shortages of essential commodities such as food, fuel, and medicine became acute, amplifying public suffering and heightening the island's economic vulnerability⁴⁶.

3.3 Geopolitical Implications, Debt Trap, and Sovereignty Risks

The economic collapse has had profound geopolitical consequences, with the loss of critical national assets. The 99-year lease of the Hambantota Port to China has become a symbol of the dangerous implications of unsustainable debt⁴⁷. This concession exemplifies how Sri Lanka's financial entanglements with China have undermined its sovereignty, allowing China to gain long-term control over strategic infrastructure. The Hambantota Port deal, specifically, highlights the strategic nature of Chinese investments, designed to entrap debtor nations into conceding critical assets in exchange for short-term financial relief. As Sri Lanka continues to follow this infrastructure-led growth model funded by Chinese loans, concerns about its long-term economic sustainability and geopolitical autonomy grow, showcasing the severe risks of such one-sided partnerships⁴⁸.

⁴¹ Singh, R. 2023. Why China has assisted Sri Lanka over debt worth \$4.2 billion. *The Indian Express*. Oct. 14.

⁴² *Embassy of Sri Lanka at Türkiye*, n.d. (all): (i) Investment Opportunities...; (ii) Sri Lanka's Debt Crisis...; & (iii) Sri Lanka's Economic Potential...

⁴³ *The Mint*. (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...

⁴⁴ *Times of India*, 2022 (all): (i) Sri Lanka's Political Crisis... July 16; (ii) Explainer: What's happened and... July 13; & (iii) Sri Lanka requests IMF for... April 19; & (iv) Explained: How Sri Lanka's economic... May 9...

⁴⁵ *Ibid*.

⁴⁶ *Asia One*, 2022 (all): (i) India To Strengthen... Aug. 12...; & (ii) India's Strategic Response, n.d.;

⁴⁷ *The Mint*. (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...

⁴⁸ *Ibid*.

3.4 Humanitarian Crisis, Social Unrest, and Economic Collapse

Sri Lanka's internal stability has been significantly compromised by the economic breakdown, fuelling widespread political unrest. Corruption, mismanagement, and skyrocketing living costs.⁴⁹ International bodies like the UNDP and the World Bank had warned of an impending humanitarian catastrophe unless immediate action is taken. However, this finally culminated in public protests, notably in July 2022, when demonstrators stormed government buildings, forcing the resignations of President Gotabaya Rajapaksa and Prime Minister Ranil Wickremesinghe⁵⁰. These events underscored the deep-rooted dissatisfaction with government policies that have failed to address the growing economic crisis. The economic collapse led to severe shortages of essential goods and services, plunging the nation into a humanitarian crisis⁵¹; data suggesting, unprecedented inflation pushing about half a million people below the poverty line and leaving behind millions vulnerable to food insecurity and lack of medical care. That crisis had exposed the vulnerabilities created by Sri Lanka's debt dependency on China, highlighting the multifaceted impact of financial, political, and social mismanagement.

4. SRI LANKA'S GEOPOLITICAL MANOEUVRING: FROM TACTICAL ADVANTAGE TO DEBT-ENTRAPMENT

Sri Lanka's geopolitical strategy, crafted to exploit its unique position between China and India for economic and strategic gain, has ultimately led the island nation into China's strategic orbit. The transition from initially leveraging Chinese investments to becoming ensnared in debt and strategic compromises illustrates the complex interplay between economic dependencies and geopolitical manoeuvres. Sri Lanka's predicament serves as a stark reminder of the inherent risks involved in attempting to balance relationships between major powers without a sustainable strategy, resulting in significant implications for its sovereignty and regional stability⁵².

4.1 Sri Lanka's Balancing Act

Sri Lanka's foreign policy has mirrored a complicated balancing act, striving to maintain diplomatic and economic relationships with significant players such as China, India, Pakistan, and the West. The country has allowed China to make strategic advances through its Belt and Road Initiative (BRI) in the region. This has ignited concerns among India and other regional powers about unstable power play of Sri Lanka affecting larger power dynamics in the entire region. Moreover, Sri Lanka's close ties with Pakistan, bolstered by deep military cooperation, add yet another layer of complexity to Sri Lanka's flip-flop act⁵³.

Historically, Sri Lanka's foreign policy has been shaped by Cold War-era alliances⁵⁴, maintaining longstanding connections with Pakistan, China, and to some extent, the U.S. Despite India's support during critical moments, Sri Lanka has nurtured a unique military relationship with Pakistan, a reflection of enduring Cold

⁴⁹ ANI, 2022 (all); (i) China's 'debt-trap diplomacy'...; April 17...; & (ii) UN mission warns of worsening...; Nov. 8;

⁵⁰ *Times of India*, 2022 (all); (i) Sri Lanka's Political Crisis...July 16; (ii) Explainer: What's happened and... July 13; & (iii) Sri Lanka requests IMF for...April 19; & (iv) Explained: How Sri Lanka's economic... May 9...;

⁵¹ International Federation of Red Cross and Red Crescent Societies (IFRC), 2022.

⁵² Nandakumar, V., 2022. Sri Lanka's Strategic Ambiguity Won't Hold, *The Diplomat*, Aug. 19; Kandaudahewa, H. 2023. Sri Lanka's strategic dilemma...*Journal of Indo-Pacific Affairs*...; Abeyagoonasekera, A., 2021. *Sri Lanka and the new Cold War...*; LSE Conflict and Civil Society Research Unit, Jan. 12...; & Moramudali, U., 2021. *The economics of the China-India-Sri Lanka triangle...*; *The Diplomat*, May 1...;

⁵³ Ibid.

⁵⁴ De Silva, S. 2024. Nonalignment and Sri Lanka's foreign policy. RSIS, , March 22. .;

War dynamics⁵⁵. These intricate relationships highlight the ongoing struggle for influence in the region, where Sri Lanka will ever seek to place its strategic position at the heart of this on-going geopolitical game.

4.1.1 Initial Strategic Manoeuvring: Sri Lanka's geopolitical strategy has traditionally revolved around manoeuvring between major powers to maximise its strategic and economic benefits. By balancing between China and India, Sri Lanka has aimed to exploit its strategic location in the Indian Ocean to attract investment and support from both countries. This approach seeks to secure infrastructure development and economic aid while maintaining a measure of strategic autonomy⁵⁶.

4.1.2 Leveraging Chinese Investments: Sri Lanka's engagement with China began with the intention of utilising Chinese investments as a counterbalance to Indian influence⁵⁷. The Belt and Road Initiative (BRI) was perceived as a golden opportunity to enhance infrastructure and spur economic growth through substantial Chinese funding. Projects like the Hambantota Port and Colombo Port City were envisioned not only as economic assets but also as strategic tools to negotiate favourable terms with other global powers, including India⁵⁸.

4.1.3 Playing Off Regional Powers: Sri Lanka's strategy has revolved around using its geographical position to negotiate better terms and garner support from both China and India. By cultivating close ties with China, Sri Lanka aimed to secure substantial investments while simultaneously leveraging these investments to extract concessions from India⁵⁹. This balancing act was intended to bolster Sri Lanka's strategic position without fully committing to either country's influence⁶⁰.

4.2 The Strategic Shift: Falling into the Chinese Trap

4.2.1 Debt Dependency and Economic Risks: While Sri Lanka's initial strategy aimed to leverage Chinese investments for its benefit, the reality of debt dependency soon set in. By 2022, Sri Lanka's external debt had surged to \$51 billion, with a significant portion owed to China⁶¹. The heavy reliance on Chinese loans for extensive infrastructure projects has resulted in an unsustainable debt burden that Sri Lanka has struggled to manage. This dependency starkly illustrates how what was once seen as a strategic asset has morphed into a financial liability, entrapping Sri Lanka in a relentless cycle of debt.

4.2.2 The Hambantota Port Lease: A Key Strategic Misstep: The Hambantota Port lease serves as a poignant example of Sri Lanka's strategic miscalculation. Originally conceived as a means to attract investment and counterbalance Indian influence, the 99-year lease of this vital port to China has effectively relinquished control over a major maritime asset. This arrangement not only compromises Sri

⁵⁵ Nandakumar, V. 2022. Sri Lanka's Strategic Ambiguity Won't Hold, *The Diplomat*, Aug. 19; Kandaudahewa, H. 2023. Sri Lanka's strategic dilemma...*Journal of Indo-Pacific Affairs.*; Abeyagoonasekera, A., 2021. *Sri Lanka and the new Cold War...*; *LSE Conflict and Civil Society Research Unit*, Jan. 12.; & Moramudali, U., 2021. *The economics of the China-India-Sri Lanka triangle...*; *The Diplomat* May 1.;

⁵⁶ Ibid.

⁵⁷ Mushtaq, M. 2024. Sri Lanka turns to India as counterbalance to Chinese presence.; and, De Silva, S. 2023. Tightrope balancing in a time of rising great power competition: An assessment of Sri Lanka's relations with India and China. *Oasis*

⁵⁸ Embassy of Sri Lanka at Turkey, n.d. (all): (i) Investment Opportunities.; (ii) Sri Lanka's Debt Crisis.; & (iii) Sri Lanka's Economic Potential.;

⁵⁹ Mushtaq, M. 2024. Sri Lanka turns to India as counterbalance.; and, De Silva, S. 2023. Tightrope balancing in a time of rising ; *Oasis.*;

⁶⁰ Nandakumar, V. 2022. Sri Lanka's Strategic Ambiguity Won't Hold, *The Diplomat*, Aug. 19; Kandaudahewa, H. 2023. Sri Lanka's strategic dilemma...*Journal of Indo-Pacific Affairs.*; Abeyagoonasekera, A., 2021. *Sri Lanka and the new Cold War...*; *LSE Conflict and Civil Society Research Unit*, Jan. 12.; & Moramudali, U., 2021. *The economics of the China-India-Sri Lanka triangle.*; *The Diplomat* May 1.;

⁶¹ *Times of India*, 2022 (all): (i) Sri Lanka's Political Crisis...July 16; (ii) Explainer: What's happened and... July 13; & (iii) Sri Lanka requests IMF for...April 19; & (iv) Explained: How Sri Lanka's economic... May 9.;

Lanka's sovereignty but also highlights how Chinese investments can shift from economic opportunities to instruments of strategic leverage⁶².

4.2.3 Failed Negotiations and Increased Vulnerability: Despite attempts to negotiate better terms and explore alternative support options, Sri Lanka has found itself increasingly beholden to Chinese financial assistance. China's refusal to provide additional credit lines during Sri Lanka's economic crisis has further illuminated the limitations of this dependency. The failure to secure essential financial backing from China during the 2022 economic collapse underscores how the initial strategy of leveraging Chinese investment has ultimately resulted in strategic entrapment⁶³.

4.3 Geopolitical Consequences and Strategic Implications

4.3.1 Impact on Sovereignty and Strategic Autonomy: Sri Lanka's overreliance on Chinese loans has profoundly undermined its strategic autonomy. The lease of the Hambantota Port, along with other Chinese investments, has allowed China to exert substantial influence over Sri Lanka's economic and strategic decisions. This erosion of sovereignty mirrors the broader implications of falling into a debt trap, where economic dependencies translate into significant strategic constraints⁶⁴.

4.3.2 Regional Balance and Strategic Realignments: Sri Lanka's attempts to balance between China and India have produced unintended consequences for regional stability. The growing Chinese influence has amplified India's strategic concerns and strained bilateral relations. While Sri Lanka sought to leverage its unique position to benefit from both powers, the outcome has been a deepening of Chinese control and a notable shift in the regional balance of power⁶⁵.

4.3.3 Lessons and Strategic Reflections: Sri Lanka's experience underscores the complexities and risks associated with geopolitical manoeuvrings. The initial strategy of leveraging investments from various powers, including China, was aimed at enhancing national benefits. However, the shift from economic opportunity to strategic vulnerability highlights the challenges of managing such dependencies. The case of Sri Lanka serves as a cautionary tale about the potential pitfalls of balancing acts in international relations, where initial advantages can swiftly transform into substantial strategic liabilities⁶⁶.

4.3.4 Consequences of Geopolitical Balancing: Sri Lanka's experience with Chinese loans and its balancing act between China and India exemplify the profound impact of overdependence on a single foreign investor. The nation's current economic and political challenges illuminate the broader implications of China's debt-trap diplomacy and underscore the urgent need for a strategic re-evaluation of its international partnerships.

5. INDIA AS THE VIABLE RESCUER: STRATEGIC SUPPORT AMIDST SRI LANKA'S DIPLOMATIC CONFUSION AND ECONOMIC CRISIS

As Sri Lanka's economic and political turmoil deepened, India emerged as a crucial stabilizer and strategic partner, particularly in light of the island nation's staggering \$51 billion debt primarily incurred through Chinese loans. India intervened with a

⁶² *The Mint*, (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...;

⁶³ *Times of India*, 2022 (all): (i) Sri Lanka's Political Crisis...July 16; (ii) Explainer: What's happened and... July 13; & (iii) Sri Lanka requests IMF for...April 19; & (iv) Explained: How Sri Lanka's economic... May 9...;

⁶⁴ *The Mint*, (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...;

⁶⁵ *The Print*, (2022). China's 'debt-trap diplomacy' behind Sri Lanka crisis: Report. April 17

⁶⁶ *Ibid*.

comprehensive aid package totalling \$3.8 billion, pivotal in addressing Sri Lanka's foreign exchange crisis and mitigating severe shortages of essentials⁶⁷. This package included a \$1.5 billion credit line to facilitate the import of vital goods and an additional \$2.4 billion disbursed to alleviate critical shortages and combat soaring inflation⁶⁸. India has become a significant player in Sri Lanka's economic recovery, having provided an essential \$4 billion lifeline during the fiscal collapse, positioning itself as one of Sri Lanka's largest trading partners, second only to China⁶⁹. The new leader, Dissanayake, despite his ideological leanings, has acknowledged India's economic success and expressed a willingness to strengthen ties, recognizing that Sri Lanka's recovery will partly rely on continued economic cooperation with India. India's economic ties with Sri Lanka have been pivotal during the latter's financial crisis, underscoring the importance of bilateral relations⁷⁰.

India's role extends beyond mere financial assistance; the strategic investments and diplomatic support offered underscore a commitment to regional stability and sustainable development. By leveraging trade agreements like the Indo-Sri Lanka Free Trade Agreement (ISLFTA), India provides Sri Lanka with access to its vast consumer market, promoting economic diversification and reducing reliance on Chinese loans⁷¹. Sri Lanka's continued need for economic assistance presents an opportunity for India to deepen economic ties through investments in renewable energy, technology, and supply chain integration⁷². Furthermore, India's investment in infrastructure projects, such as the \$700 million deep-sea container facility at Colombo Port, directly counters Chinese dominance and offers Sri Lanka viable alternatives to Chinese financing⁷³. Through these measures, India not only aids Sri Lanka's immediate recovery but also reinforces its strategic interests in the Indian Ocean Region, positioning itself as a reliable alternative to Chinese influence. This approach highlights the value of regional cooperation and diversified economic partnerships in addressing complex geopolitical challenges.

Moving forward, India must capitalize on Sri Lanka's desire to renegotiate foreign deals, a key aspect of President Dissanayake's platform. This inclination allows India the opportunity to advocate for the reassessment of Chinese projects, particularly those that risk compromising Sri Lankan autonomy or may have military implications⁷⁴. By positioning itself as a more stable, reliable, and non-hegemonic partner, India can offer alternatives to the dependency created by Chinese investments. Moreover, India's investments and security cooperation must respect Sri Lanka's sovereignty, a key concern for the new government in Colombo. The country's historical opposition to foreign intervention, particularly under Marxist-leaning governments, provides India with an opportunity to offer security partnerships that align with Sri Lanka's interests without undermining its independence⁷⁵.

To prevent Sri Lanka from gravitating further toward China's naval and strategic influence, India must leverage its long-standing bilateral ties and present itself as the most reliable partner. Sri Lanka's past political alignment with Beijing, especially under previous governments, should serve as a reminder of how quickly

⁶⁷ Sultana, G., 2022., *Indian assistance to crisis-ridden...*; Reuters, July 31; Reuters, 2022. India to invest more in Sri Lanka...., July 19..;

⁶⁸ Ibid.

⁶⁹ Ganguly, 2024. What Sri Lanka's election means, *Foreign Policy*, Sept. 24.

⁷⁰ Sharma, 2024. Sri Lanka election, *Business Standard*, Sept. 26.

⁷¹ ICC in Slovak Republic, (all): (i) Indian Chamber of Commerce in Slovak Republic, n.d.. & (ii) Indo-Sri Lanka Free Trade Agreement... n.d..;

⁷² Sharma, 2024. Sri Lanka election, *Business Standard*, Sept. 26.

⁷³ *Asia One*, 2022 (all): (i) India To Strengthen..., Aug. 12.; & (ii) India's Strategic Response, n.d..;

⁷⁴ Wason, 2024. A new chapter, *Hindustan Times*, Sept. 24.

⁷⁵ Ganguly, 2024. What Sri Lanka's election means, *Foreign Policy*, Sept. 24.

Colombo can shift alliances if India does not actively engage. The presence of Chinese research vessels, military personnel, and economic advisors only underscores the urgency with which India must act⁷⁶. India can prevent Chinese naval ambitions from taking root by strengthening maritime infrastructure cooperation. Offering Sri Lanka, the opportunity to develop its maritime infrastructure under Indian guidance will prevent China from further embedding its military capabilities in the region. This can be achieved through Indian-led port development projects that focus on purely economic rather than dual-use purposes⁷⁷.

Additionally, leveraging the SAGAR (Security and Growth for All in the Region) framework⁷⁸ can emphasize a collaborative approach to regional security, ensuring Sri Lanka's role in maintaining a stable and secure Indian Ocean Region (IOR). This framework can be reinforced through consistent diplomatic engagement and regional multilateral forums that prioritize shared security objectives over unilateral foreign interventions⁷⁹. India's security concerns regarding Sri Lanka are deeply intertwined with China's growing influence in the region. By strengthening its maritime cooperation, deepening defence partnerships, and offering sustainable economic alternatives, India can bring Sri Lanka firmly into the fold of IOR security dynamics. Preventing further Chinese encroachment into Sri Lankan infrastructure—particularly military-grade investments—is critical for ensuring regional stability and securing India's strategic interests. While the IOR remains the preferred battleground for China against India⁸⁰; India through proactive engagement with IOR countries like Sri Lanka can maintain its objective of safeguarding the region from external threats.

6. INDO-SRI LANKA MULTILATERAL PARTNERSHIPS: THE MUTUAL SCOPES AND PARAMETERS

6.1. Counterbalance to Chinese Dominance

6.1.1 Diplomatic and Security Cooperation: India must continue to enhance diplomatic and security cooperation with Sri Lanka, particularly in maritime security and counter-terrorism. With the new Sri Lankan leader, Dissanayake, prioritising national sovereignty and reducing foreign exploitation, India has the opportunity to engage in collaborative security initiatives that support regional stability⁸¹. India's SAGAR vision emphasises security and development in the Indian Ocean region, positioning Sri Lanka as a crucial partner in maintaining a free, open, and secure maritime environment⁸². Moving forward, joint security exercises, maritime patrols, and counter-terrorism initiatives should remain foundational to this bilateral cooperation, further bolstering Sri Lanka's security capabilities. Dissanayake's plans to renegotiate foreign agreements align with India's strategic interests, allowing for a reassessment of Chinese projects that may threaten Sri Lankan sovereignty⁸³. India must continue to respect Sri Lanka's autonomy while addressing shared concerns regarding Chinese influence, thus reinforcing its role as a reliable partner in supporting Sri Lanka's strategic independence. Given the critical nature of Sri Lanka in India's

⁷⁶ Francis & Pathi, 2024. Sri Lanka's new leader, *AP News*, Sept. 25.

⁷⁷ Perozo, 2024. Sri Lanka's new government, *Yahoo Finance*, Sept. 26.

⁷⁸ Padmaja, G. 2018. Revisiting 'SAGAR' – India's template for cooperation in the Indian Ocean region.

⁷⁹ Kapoor, 2024. India's troubled neighbourhood, *ETV Bharat*, Sept. 25.

⁸⁰ Rajagopalan, R. P. 2021. Countering Chinese assertiveness: India's changing posture in the Indian Ocean.

⁸¹ Wason, 2024. A new chapter, *Hindustan Times*, Sept. 24.

⁸² Ibid.

⁸³ Ibid.

broader regional security strategy, India should ensure that security collaboration remains a significant aspect of their relationship, empowering Sri Lanka to uphold its historical opposition to foreign intervention while fostering regional stability⁸⁴.

6.1.2. Enhancing Maritime and Infrastructure Collaboration: India should strategically enhance maritime and infrastructure collaboration with Sri Lanka to enable the latter to develop essential maritime capabilities while countering Chinese dominance. By providing Sri Lanka with the opportunity to build its maritime infrastructure under Indian guidance, India can help prevent the further embedding of Chinese military capabilities, focusing on Indian-led port projects that prioritise economic rather than dual-use objectives⁸⁵. This approach addresses India's security concerns regarding China's growing influence, particularly at the Hambantota Port, which has been leased to China for 99 years⁸⁶. As the presence of Chinese research vessels in Sri Lankan ports raises alarms in New Delhi about Beijing's increasing control⁸⁷, India must remain vigilant. While Dissanayake's government may advocate non-alignment, India must recognise that China's economic leverage could escalate its military presence in the Indian Ocean, which India perceives as a direct threat. Thus, India's diplomatic engagement should include continued funding for the development of the East Container Terminal at Colombo Port, reinforcing its role as an essential partner for Sri Lanka and ensuring that it remains within India's strategic orbit⁸⁸.

6.1.3 Strengthening Maritime Security: India must focus on further enhancing maritime security cooperation with Sri Lanka to provide critical support for safeguarding the latter's maritime interests. Through joint coast guard operations and security collaborations, both nations should work to maintain regional stability and protect India's interests in the Indian Ocean Region (IOR)⁸⁹. This partnership serves as a strategic deterrent against potential threats and reinforces India's presence in the IOR, benefitting Sri Lanka's maritime security posture. The strengthening of maritime security cooperation should involve more joint naval exercises, intelligence sharing, and military training, which are essential for Sri Lanka to maintain a security relationship independent of Chinese partnerships⁹⁰. India's SAGAR vision, which prioritises a free, open, and secure Indian Ocean, aligns with Sri Lanka's interests in safeguarding its sovereignty against external powers⁹¹. To achieve this, India should commit to more joint security exercises and enhanced maritime patrol initiatives, securing this vital region for both countries. By taking these initiatives, Sri Lanka can strengthen its maritime security while deepening its strategic partnership with India, especially as apprehensions regarding China's economic and security influence continue to grow⁹².

6.2 Economic Engagement and Counterbalance to Chinese Dominance

6.2.1 Comprehensive Financial Aid Package: India's relations with Sri Lanka have become increasingly critical, particularly in light of the island nation's severe financial crisis in 2022. Responding to this crisis, India took the initiative by providing

⁸⁴ Ganguly, 2024. What Sri Lanka's election means, *Foreign Policy*, Sept. 24.

⁸⁵ Perozo, 2024. Sri Lanka's new government, *Yahoo Finance*, Sept. 26.

⁸⁶ Sharma, 2024. Sri Lanka election, *Business Standard*, Sept. 26.

⁸⁷ Francis & Pathi, 2024. Sri Lanka's new leader, *AP News*, Sept. 25.

⁸⁸ Nandakumar, V., 2022. Sri Lanka's Strategic Ambiguity Won't Hold, *The Diplomat*, Aug. 19; Kandaudahewa, H. 2023. Sri Lanka's strategic dilemma...*Journal of Indo-Pacific Affairs.*; Abeyagoonasekera, A., 2021. *Sri Lanka and the new Cold War...*; LSE Conflict and Civil Society Research Unit, Jan. 12.; & Moramudali, U., 2021. *The economics of the China-India-Sri Lanka triangle...*; *The Diplomat* May 1.; and, Francis & Pathi, 2024. Sri Lanka's new leader, *AP News*, Sept. 25.

⁸⁹ *Asia One*, 2022 (all): (i) India To Strengthen..., Aug. 12.; & (ii) India's Strategic Response, n.d.;

⁹⁰ Sharma, 2024. Sri Lanka election, *Business Standard*, Sept. 26.

⁹¹ Kapoor, 2024. India's troubled neighbourhood, *ETV Bharat*, Sept. 25.

⁹² Kapoor, 2024. India's troubled neighbourhood, *ETV Bharat*, Sept. 25.

substantial financial and material assistance, stabilising Sri Lanka's economy at a time when Chinese investments had declined due to economic downturns and rising debt concerns⁹³. India's comprehensive aid package included a \$1.5 billion credit line aimed at facilitating the import of essential goods, such as food, fuel, and medicines. Furthermore, India disbursed an additional \$2.4 billion since January 2022 to tackle acute shortages and support Sri Lanka's immediate needs⁹⁴. This financial support has been instrumental in alleviating economic pressures, particularly as inflation soared above 17%⁹⁵. Unlike China's debt-driven investments, which often lead to increased dependency, India's assistance focuses on providing relief and fostering economic stability without the encumbrance of debt. From an economic standpoint, India has significant stakes in ensuring Sri Lanka's stability and recovery. The 2022 economic crisis highlighted the necessity of foreign investment and economic support from neighbouring countries, with India playing a crucial role by contributing to debt restructuring and financial assistance⁹⁶. India's active engagement not only aids Sri Lanka's immediate recovery but also positions India as a dependable partner in a time of need.

6.2.2 Strategic Financial and Economic Investments: India's role in Sri Lanka extends beyond immediate financial aid; it encompasses strategic investments that offer a more sustainable and diversified approach to addressing Sri Lanka's economic challenges. A prime example is the Indo-Sri Lanka Free Trade Agreement (ISLFTA), which promotes balanced trade and economic integration, allowing Sri Lanka to access India's expansive consumer market. This presents a viable alternative to debt-heavy infrastructure projects funded by China⁹⁷. As one of Sri Lanka's largest trading partners, second only to China⁹⁸, India is well-positioned to continue strengthening its economic ties by promoting infrastructure projects, such as renewable energy and trade facilitation. Despite the reduced financial footprint of China in South Asia over the past few years, concerns remain regarding Dissanayake's potential inclination to invite more Chinese investments. India must remain vigilant about this possibility, particularly regarding projects like the Belt and Road Initiative, which could undermine Sri Lanka's economic independence and further entrench Chinese influence⁹⁹.

6.2.3 Significant Infrastructure Investments: A crucial element of India's strategy to counter Chinese dominance in Sri Lanka is its substantial investment in the island nation's infrastructure. For instance, the Adani Group's \$700 million investment in a deep-sea container facility at Colombo Port serves as a direct countermeasure to Chinese initiatives in the region. This project not only challenges China's Belt and Road Initiative (BRI) but also offers Sri Lanka a significant alternative to Chinese investments¹⁰⁰. By positioning itself as a key partner in Sri Lanka's infrastructure development, India aims to reduce the island nation's overdependence on Chinese capital. With Dissanayake's emphasis on reviving the Sri Lankan economy, India can leverage its established investments in tourism, port development, and energy infrastructure to further solidify this partnership. The ongoing plan to connect the power grids of both countries underscores India's vested interest in fostering economic

⁹³ Francis & Pathi, 2024. Sri Lanka's new leader, *AP News*, Sept. 25.

⁹⁴ *Reuters*, 2022. India to invest more in Sri Lanka after crisis support of \$3.8 billion, July 19.

⁹⁵ Sultana, G., 2022. Indian assistance to crisis-ridden Sri Lanka, July 31

⁹⁶ Perozo, 2024. Sri Lanka's new government, *Yahoo Finance*, Sept. 26.

⁹⁷ *ICC in Slovak Republic*, (all): (i) Indian Chamber of Commerce in Slovak Republic, n.d..; & (ii) Indo-Sri Lanka Free Trade Agreement...

n.d..;

⁹⁸ Ganguly, 2024. What Sri Lanka's election means, *Foreign Policy*, Sept. 24.

⁹⁹ Francis & Pathi, 2024. Sri Lanka's new leader, *AP News*, Sept. 25.

¹⁰⁰ *Asia One*, 2022 (all): (i) India To Strengthen..., Aug. 12..; & (ii) India's Strategic Response, n.d..;

alignment¹⁰¹. India's expertise in infrastructure development and renewable energy can be effectively capitalised upon to counterbalance China's economic sway in the region. In this context, India emerges not just as a supporter but as a proactive architect of Sri Lanka's economic resilience and strategic autonomy.

6.2.4. Financial Assistance and Currency Support: India's financial contributions have been pivotal in addressing Sri Lanka's immediate economic vulnerabilities, notably through a \$400 million currency swap and an additional \$1.5 billion in credit lines. This support is strategically designed to combat inflationary pressures exacerbated by Sri Lanka's debt crisis, positioning India as a stabilising force in the region and offering a more balanced alternative to Chinese financial aid¹⁰². With Sri Lanka grappling with economic difficulties largely stemming from a heavy debt burden imposed by Chinese loans, India has provided significant assistance, including a comprehensive \$4 billion aid package during Sri Lanka's recent economic crisis, reinforcing its commitment to regional stability¹⁰³. This assistance is particularly critical given the concerns surrounding China's perceived debt-trap diplomacy, exemplified by its acquisition of strategic Sri Lankan ports, which raises questions about the island nation's sovereignty and its overreliance on Chinese investments¹⁰⁴.

Historically, India's engagement with past Sri Lankan governments, particularly under Prime Ministers Mahinda Rajapaksa and Ranil Wickremesinghe, has been stable, allowing for successful partnerships in infrastructure, energy, and trade¹⁰⁵. The Modi government has effectively maintained and extended these partnerships through economic assistance during critical periods, such as the COVID-19 pandemic and the economic crisis of 2022¹⁰⁶. The multifaceted engagement strategy, including the substantial aid package during the financial crisis, further illustrates New Delhi's commitment to regional stability and its ambition to strengthen influence in Colombo, enhancing India's position as a reliable partner dedicated to sustainable development in Sri Lanka.

6.2.5 Promoting Trade and Economic Resilience: India's investments in Sri Lanka are integral to its broader geopolitical strategy within the Indian Ocean region. Ensuring these investments contribute to regional stability while counteracting Chinese influence is essential. For India, aligning its investments with Sri Lanka's economic needs is critical; key areas such as infrastructure development, technology transfer, and skill enhancement present opportunities for India to foster growth in Sri Lanka while safeguarding its own interests¹⁰⁷. India's development assistance extends to capacity-building initiatives through agreements like the Indo-Sri Lanka Free Trade Agreement (ISLFTA), which not only fosters economic ties but also supports Sri Lanka's integration into a broader regional market¹⁰⁸. This agreement is instrumental in helping Sri Lanka diversify its economic partnerships and reduce its reliance on Chinese loans, thereby contributing to a more resilient and balanced economy.

6.2.6 Addressing Immediate and Long-Term Needs: The historical relationship between India and past Sri Lankan governments, including the Rajapaksa administration, has been characterised by cooperation, albeit with challenges. The Modi government's substantial financial assistance, including a \$4 billion aid package, to Sri

¹⁰¹ Perozo, 2024. Sri Lanka's new government, *Yahoo Finance*, Sept. 26.

¹⁰² *CNBC TV18*, 2022. Sri Lanka declares bankruptcy, what happens next? July 9.

¹⁰³ Kapoor, 2024. India's troubled neighbourhood, *ETV Bharat*, Sept. 25.

¹⁰⁴ Perozo, 2024. Sri Lanka's new government, *Yahoo Finance*, Sept. 26.

¹⁰⁵ Francis & Pathi, 2024. Sri Lanka's new leader, *AP News*, Sept. 25..

¹⁰⁶ Perozo, 2024. Sri Lanka's new government, *Yahoo Finance*, Sept. 26.

¹⁰⁷ Wason, 2024. A new chapter, *Hindustan Times*, Sept. 24.

¹⁰⁸ *ICC in Slovak Republic*, (all): (i) Indian Chamber of Commerce in Slovak Republic, n.d., & (ii) Indo-Sri Lanka Free Trade Agreement...

n.d.;

Lanka during its economic crisis highlights India's vested interest in ensuring regional stability¹⁰⁹. With Dissanayake now in power, this established foundation could lead to further development, especially given his campaign focus on economic sovereignty and reducing foreign exploitation—an agenda that resonates with India's goal of curbing Chinese influence in the region¹¹⁰. India's significant aid package, totaling \$3.8 billion, addresses both immediate economic needs and long-term stability for Sri Lanka. This assistance not only mitigates Sri Lanka's foreign exchange crisis but also strengthens India's influence, thereby contributing to regional stability¹¹¹. By providing targeted support and promoting sustainable trade practices, India is demonstrating a commitment to fostering a more stable and resilient Sri Lankan economy, contrasting sharply with the pitfalls associated with overreliance on Chinese capital.

7. UNDERSTANDING THE PAST, LEARNING FROM SRI LANKA'S FLIP-FLOP GAMES: STRATEGICALLY INVESTING IN SRI LANKA—INSIGHTS FOR INDIA

Sri Lanka's recent economic challenges and geopolitical manoeuvres offer crucial lessons for India as it contemplates its own investment strategies in the island nation. By analysing Sri Lanka's past decisions and the resultant economic and political instability, India can formulate a more informed and strategic approach to its investments in Sri Lanka. This section explores the implications of Sri Lanka's financial missteps, highlights key takeaways for India, and outlines a strategic framework for future investments.

7.1 Lessons from Sri Lanka's Financial Missteps

Sri Lanka's heavy reliance on Chinese loans has led to a severe debt crisis, illustrating the pitfalls of overdependence on a single foreign power. The nation's extensive borrowing from China, driven by ambitious infrastructure projects, has resulted in a staggering debt burden, contributing to its current economic malaise¹¹². The so-called debt-trap diplomacy employed by China has demonstrated the risks associated with such financial entanglements, where debt becomes a tool for strategic leverage over borrower nations. The high levels of debt incurred from Chinese investments have exposed Sri Lanka to significant economic and political vulnerabilities. As Sri Lanka struggles with economic instability, including high inflation and currency devaluation, the need for a more balanced approach to foreign borrowing becomes evident¹¹³. The lessons learned from Sri Lanka's experience underscore the importance of diversification and transparency in international financial agreements to avoid similar pitfalls. The new administration under Dissanayake has expressed its desire to reduce reliance on foreign powers, particularly China, which has been viewed with scepticism due to its debt-trap diplomacy¹¹⁴. India must take note of these dynamics and ensure that its investments do not inadvertently create similar dependencies.

7.2 Strategic Insights for India's Investment Approach

India's engagement with Sri Lanka over the past decade has been marked by efforts to counterbalance China's growing influence. Under Modi's government, India has

¹⁰⁹ Wason, 2024. A new chapter, *Hindustan Times*, Sept. 24.

¹¹⁰ *Ibid.*

¹¹¹ *Reuters*, 2022. India to invest more in Sri Lanka after crisis support of \$3.8 billion, July 19.

¹¹² *The Mint*, (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...;

¹¹³ *Times of India*, 2022 (all): (i) Sri Lanka's Political Crisis... July 16; (ii) Explainer: What's happened and... July 13; & (iii) Sri Lanka requests IMF for... April 19; & (iv) Explained: How Sri Lanka's economic... May 9...;

¹¹⁴ Kapoor, 2024. India's troubled neighbourhood, *ETV Bharat*, Sept. 25.

invested in key infrastructure projects in Sri Lanka, balancing Chinese investments. Going forward, India must continue to offer attractive, sustainable alternatives to Chinese projects, particularly in energy, ports, and logistics¹¹⁵. The stakes are high, as Chinese investments, particularly in infrastructure like the Hambantota Port, pose a direct strategic challenge to India's maritime interests in the Indian Ocean Region¹¹⁶. Modi's government has actively sought to ensure that Sri Lanka does not fall too far under Beijing's sway, a priority that will remain under Dissanayake's leadership. A strategic investment framework should encompass diversification of investments, prioritising transparency and sustainable financing, and fostering long-term collaborations.

7.3 Diversification of Investments

Sri Lanka's overdependence on Chinese investments necessitates a cautious and strategic re-evaluation of its partnerships. This approach has prompted both Sri Lanka and the global community to be increasingly wary of excessive debt burdens and to seek diversified foreign partnerships to mitigate these risks¹¹⁷. To avoid the pitfalls of dependency, India should focus on a diversified portfolio of investments in Sri Lanka. This includes not only infrastructure projects but also investments in sectors such as technology, healthcare, and education, which can contribute to a more balanced economic development. A diversified investment strategy can reduce vulnerability to political shifts and external influences, enabling both nations to align on development goals while also ensuring mutual benefits. Dissanayake's government has signalled its intent to reconsider foreign investments like the Adani wind energy project¹¹⁸, which could strain economic ties with India¹¹⁹. However, this presents a strategic opportunity for India to propose alternative investments that respect Sri Lanka's autonomy while ensuring shared economic growth.

7.4 Transparent and Sustainable Financing

India should prioritise transparency and sustainability in its financial dealings with Sri Lanka. This involves providing clear terms and conditions for investments while avoiding high-risk debt arrangements that could lead to economic entrapment. Promoting sustainable financial practices can significantly contribute to Sri Lanka's resilience. Given the island nation's critical economic condition, India must strike a balance between providing necessary financial support and respecting Sri Lanka's sovereignty, particularly in light of growing local resistance to perceived economic dominance by Indian conglomerates like Adani¹²⁰. Establishing long-term partnerships with local businesses and government entities can enhance investment security against political fluctuations. By aligning with Sri Lanka's development goals, India can create a more favourable environment for its investments while fostering equitable and transparent economic partnerships that serve both nations' interests.

7.5 Implementing a Strategic Investment Framework

India can leverage this shift by offering alternative, sustainable investment options, particularly in infrastructure, energy, and technology sectors, which would benefit both

¹¹⁵ Ibid.

¹¹⁶ Sharma, 2024. Sri Lanka election, Business Standard, Sept. 26.

¹¹⁷ *The Mint*. (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...;

¹¹⁸ GlobalData. (n.d.). Power plant profile: Mannar Wind Farm-Adani Green, Sri Lanka. *Power Technology*.

¹¹⁹ Kapoor, 2024. India's troubled neighbourhood, *ETV Bharat*, Sept. 25.

¹²⁰ Ibid.

nations¹²¹. Therefore, a strategic investment framework for Sri Lanka should encompass several key actions, including economic support and development initiatives. India's financial aid, including the \$3.8 billion aid package, is critical for Sri Lanka's economic recovery¹²². This support should extend through targeted investments that address key challenges, such as infrastructure development and essential commodity shortages. The Adani Group's \$700 million investment in a deep-sea container facility at Colombo Port exemplifies this approach¹²³, offering Sri Lanka a viable alternative to Chinese financing¹²⁴. Moreover, India's financial assistance should also encompass technical expertise and capacity-building measures that empower Sri Lanka to manage and utilise these investments effectively. For instance, establishing collaborative platforms for knowledge exchange can enhance the capabilities of Sri Lankan professionals in project management and implementation. By positioning itself as a reliable partner that not only provides funding but also knowledge and skills, India can strengthen its diplomatic ties and influence in Sri Lanka while promoting sustainable economic development.

7.6 Diplomatic and Security Engagement

India faces the challenge of balancing historical tensions with pragmatic diplomatic engagement. While Dissanayake has expressed a more liberal democratic stance in recent years, his past criticisms of India's regional influence could complicate relations¹²⁵. Diplomatically, India has always viewed Sri Lanka as a critical partner in the Indian Ocean region. With Dissanayake's ascent to the presidency, India's diplomatic engagement is poised to deepen. Modi's swift outreach to Dissanayake, along with the visit of India's High Commissioner shortly after the election results, reflect the high priority New Delhi places on this bilateral relationship¹²⁶. Continued engagement is essential to counter external influences, particularly from China, which currently holds 11% of Sri Lanka's \$51 billion external debt, especially after gaining control of the Hambantota port under a 99-year lease¹²⁷. India's involvement should also focus on strengthening diplomatic and security ties through initiatives like the development of the East Container Terminal at Colombo Port and enhanced maritime security cooperation, reinforcing India's regional influence¹²⁸. Furthermore, fostering regional security dialogues involving Sri Lanka and other key stakeholders can create a robust framework for addressing shared security concerns, including maritime security and disaster management.

7.7 Capacity Building and Long-Term Collaboration

Beyond immediate financial aid, India should emphasise capacity building and long-term collaboration with Sri Lanka. This includes supporting democratic institutions, ensuring transparency in governance, and fostering economic reforms that enable Sri Lanka to build a robust economic and political framework¹²⁹. Capacity building efforts should enhance human capital through educational initiatives and vocational training

¹²¹ Wason, 2024. A new chapter, *Hindustan Times*, Sept. 24.

¹²² Sultana, G., 2022. *Indian assistance to crisis-ridden...*; Reuters, July 31; Reuters, 2022. *India to invest more in Sri Lanka...*, July 19.

¹²³ India Infrahub. 2022. Colombo Port: Adani begins construction of \$700 million container terminal project. *Swarajya*. Nov. 10.;

¹²⁴ *Asia One*, 2022 (all): (i) India To Strengthen..., Aug. 12.; & (ii) India's Strategic Response, n.d.;

¹²⁵ Francis & Pathi, 2024. Sri Lanka's new leader, *AP News*, Sept. 25.;

¹²⁶ Wason, 2024. A new chapter, *Hindustan Times*, Sept. 24.;

¹²⁷ Ganguly, 2024. What Sri Lanka's election means, *Foreign Policy*, Sept. 24. ;

¹²⁸ Nandakumar, V., 2022. Sri Lanka's Strategic Ambiguity Won't Hold, *The Diplomat*, Aug. 19; Kandaudahewa, H., 2023. Sri Lanka's strategic dilemma...*Journal of Indo-Pacific Affairs*.; Abeyagoonasekera, A., 2021. *Sri Lanka and the new Cold War...*; *LSE Conflict and Civil Society Research Unit*, Jan. 12.; & Moramudali, U., 2021. *The economics of the China-India-Sri Lanka triangle...*; *The Diplomat* May 1.; and, *Asia One*, 2022 (all): (i) India To Strengthen..., Aug. 12.; & (ii) India's Strategic Response, n.d.;

¹²⁹ *The Economic Times*, 2022. (all): (i) India-Sri Lanka: Strategic partnerships in...; (ii) Gautam Adani lands in the...; Nov. 11.;

programs tailored to the needs of key industries, such as technology and manufacturing. Collaboration with Sri Lankan universities can lead to the development of specialised training programs, which will strengthen bilateral ties while empowering Sri Lanka to take ownership of its development. Furthermore, India can promote good governance by encouraging transparent regulatory frameworks and fostering civic engagement, thereby creating a more inclusive and accountable political environment that enhances stability and reduces the likelihood of social unrest. By learning from Sri Lanka's past financial missteps, India can chart a path that not only supports Sri Lanka's recovery but also strengthens its own position as a trusted partner in the region. The successful implementation of a strategic investment framework prioritising diversification, transparency, and capacity building will be essential for achieving these objectives, ultimately leading to a more stable and prosperous future for both nations.

8. STRATEGIC INVESTMENT FOR SUSTAINABLE GROWTH IN SRI LANKA – HOW AND WHAT INDIA CAN CONTRIBUTE

India presents a compelling alternative to China's financial engagement with Sri Lanka, particularly regarding economic collaboration. The Indo-Sri Lanka Free Trade Agreement (ISLFTA) exemplifies how Indian strategic investments can aid Sri Lanka in managing its substantial \$51 billion external debt. By leveraging such trade agreements, Sri Lanka can mitigate its reliance on Chinese loans, fostering a more diversified and resilient economy. This diversification is paramount given the urgent need to address economic vulnerabilities exacerbated by external debt¹³⁰. Moreover, as China's debt-trap diplomacy raises legitimate concerns about Sri Lanka's sovereignty, India has the opportunity to position itself as a stabilising force. India's interest in engaging with Sri Lanka extends beyond mere economic opportunities; it encompasses crucial geopolitical concerns and the strengthening of bilateral ties. Sri Lanka's strategic location in the Indian Ocean significantly enhances its importance to India's broader regional strategy. By deepening investment and trade relations, India can advance shared economic interests while reinforcing its regional presence. This involvement aligns with India's objective of maintaining stability in its neighbourhood through economic collaboration and infrastructural support¹³¹.

Sri Lanka's desire to position itself as a regional hub for aviation, navigation, and commerce in South Asia provides unique investment opportunities. Moreover, Sri Lanka's government-led initiative to upgrade maritime, aviation, road, electricity, and communication infrastructures, for instance, the Port City of Colombo signals a commitment to fostering regional stability through strategic investments¹³². India's active participation in these infrastructure projects can ensure mutual benefits. While Sri Lanka's potential of presenting a strong pro-business climate- and India strategic help to maintain that momentum can be a unique combination contributing to mutual economic ascent¹³³. India's investment with along with its private sectors' participation in Sri Lanka's infra sectors present a comprehensive opportunity for India. It not only provides Sri Lanka a sustained and secured future to prosperity and progress but creates a condition where the entire region can remain stable and secured to all parties' larger economic and security interests. The investment objective of India must remain

¹³⁰ ICC in Slovak Republic, (all): (i) Indian Chamber of Commerce in Slovak Republic, n.d., & (ii) Indo-Sri Lanka Free Trade Agreement... n.d.;

¹³¹ Ibid.

¹³² Ibid.

¹³³ Embassy of Sri Lanka at Türkiye, n.d. (all): (i) Investment Opportunities.; (ii) Sri Lanka's Debt Crisis.; & (iii) Sri Lanka's Economic Potential...;

two-fold - and that must also align to getting reputation as the most reliable partner committed to Sri Lanka's sustainable economic growth¹³⁴; - first, advancing Sri Lanka's focus on sustainable development; and second, to maintain and cultivate strategic command in the region increasingly susceptible to Chinese hegemonic expansion.

Sri Lanka's business-friendly policies significantly enhance its attractiveness as an investment destination for India. As South Asia's most liberalised economy, Sri Lanka's commitment to deregulation, privatisation, and encouraging foreign competition creates a favourable investment climate, underscored by its notable ranking of 90 out of 186 in the 2014 Index of Economic Freedom¹³⁵. Membership in the Multilateral Investment Guarantee Agency (MIGA)¹³⁶ further protects foreign investors from non-commercial risks, boosting confidence among Indian investors. Additionally, transparent investment regulations, supported by constitutional guarantees and bilateral agreements—including protection agreements with 28 countries¹³⁷ and double taxation avoidance agreements with 38 countries¹³⁸—create a reliable environment for investment¹³⁹. Sri Lanka's independent judicial system, rooted in British legal traditions, ensures impartial resolution of disputes, providing added security for investors¹⁴⁰. By strategically investing and actively engaging in Sri Lanka's development, India can strengthen the island nation's economy while safeguarding its own geopolitical and economic interests in the region.

9. STRATEGICALLY INVESTING IN CRITICAL SECTORS: WHAT SRI LANKA OFFERS - BUT ON WHAT AND HOW INDIA MUST CONTEMPLATE?

India's strategic investment in Sri Lanka is pivotal for enhancing regional stability and fostering economic growth for both nations. By focusing on shared economic and geopolitical interests, India can significantly contribute to transforming Sri Lanka into a regional hub. The Sri Lankan government is working towards establishing five critical strategic hubs: a knowledge hub, a commercial hub, a naval and marine hub, an aviation hub, and an energy centre¹⁴¹, all of which are part of a comprehensive infrastructure development plan aimed at positioning Sri Lanka as a key player in South Asia's aviation, navigation, and commerce sectors¹⁴². For India, this represents a substantial opportunity to engage with a close neighbour whose strategic position in the Indian Ocean is vital to its own security and economic interests.

India's involvement in infrastructure development is not merely an economic gesture but a strategic move to promote regional stability and counterbalance other external influences, particularly China's growing presence in the region¹⁴³. A prominent example of this is - India's investment in renewable energy projects like the NTPC solar power project at Sampur, Trincomalee¹⁴⁴ that reflects a commitment to sustainable development and energy security, benefiting both nations as Sri Lanka diversifies its

¹³⁴ *Asia One*, 2022 (all): (i) India To Strengthen..., Aug. 12.; & (ii) India's Strategic Response, n.d.;

¹³⁵ *ICC in Slovak Republic*, (all): (i) Indian Chamber of Commerce in Slovak Republic, n.d., & (ii) Indo-Sri Lanka Free Trade Agreement... n.d.;

¹³⁶ *World Bank Group*. Multilateral Investment Guarantee Agency. (n.d.).

¹³⁷ Investment Protection: Bilateral Investment Promotion and Protection Treaties. (n.d.)

¹³⁸ Investing in Sri Lanka: Investment Protection and Double Taxation. (n.d.).

¹³⁹ *ICC in Slovak Republic*, (all): (i) Indian Chamber of Commerce in Slovak Republic, n.d., & (ii) Indo-Sri Lanka Free Trade Agreement... n.d.;

¹⁴⁰ *Ibid*.

¹⁴¹ *Vista Capital*. (n.d.). Why invest in Sri Lanka?; and, Weerakkody, D. 2014. Government's five hubs and public service. *Daily Mirror*. Feb. 24.

¹⁴² *ICC in Slovak Republic*, (all): (i) Indian Chamber of Commerce in Slovak Republic, n.d., & (ii) Indo-Sri Lanka Free Trade Agreement... n.d.; and, Sultana, G., 2022. Indian assistance to crisis-ridden Sri Lanka, July 31.

¹⁴³ Sultana, G., 2022. Indian assistance to crisis-ridden Sri Lanka, July 31

¹⁴⁴ Mudugamuwa, M. 2024. *Sampur Solar Power Plant: Sri Lanka and India agree on unit price*. *The Morning*. July 28.

energy sources¹⁴⁵. Sri Lanka's ambitious plans also encompass significant developments in maritime and aviation infrastructure. Projects such as the Port City of Colombo and the Colombo South Port expansion aim to transform Sri Lanka into a hub for global trade and commerce, with the Port City project showcasing the government's commitment to creating a world-class commercial hub¹⁴⁶.

India's strategic investments in these sectors are essential for maintaining its influence in the Indian Ocean region and ensuring Sri Lanka remains economically resilient. For instance, by investing in the Colombo South Port expansion, projected to increase the port's capacity by 160%, India can help solidify Sri Lanka's position as a crucial maritime trade centre¹⁴⁷. Additionally, India's engagement all possibly can extend more to healthcare, education, and technology, fostering a long-term partnership that promotes sustainable development while reducing Sri Lanka's reliance on any single foreign power. This holistic approach not only bolsters Sri Lanka's economy but also contributes to regional stability, aligning with India's strategic objectives¹⁴⁸. Ultimately, India's investments demonstrate a nuanced understanding of the economic and geopolitical landscape, positioning India as a key player in the region's future while securing its national interests. This collaboration underscores the importance of balanced, sustainable development, ensuring shared prosperity and enhanced regional stability for both nations¹⁴⁹.

9.1 India's Strategic Investment in Sri Lanka: Sectors and Dynamics in Focus

India's strategic investments in Sri Lanka cover a wide range of sectors, each playing a critical role in reinforcing bilateral relations and enhancing regional stability. These investments highlight a comprehensive approach, balancing economic growth with strategic interests¹⁵⁰. By focusing on these areas, India aims to forge a strong, long-term partnership with Sri Lanka, benefiting both nations and deepening their strategic ties.

9.1.1 Infrastructure Sector: India's primary focus on infrastructure development in Sri Lanka forms the backbone of its strategic engagement. Major infrastructure projects are designed to enhance connectivity and promote trade between the two countries. A prominent example is the development of the Colombo South Port, which aims to improve maritime connectivity and facilitate smoother trade flows¹⁵¹. Additionally, the investments made by the Adani Group in the Colombo West International Terminal further underscore India's commitment to strengthening Sri Lanka's port infrastructure¹⁵². These infrastructural advancements are expected to boost trade while cementing the strategic maritime linkages between the two nations¹⁵³. The significance of these investments lies in their potential to enhance logistical efficiency, support economic integration, and fortify bilateral trade relationships. Furthermore, projects like the Port City of Colombo showcase Sri Lanka's aspirations to become a global commercial hub, aligning with India's strategic interests in maintaining influence in the Indian Ocean region.

¹⁴⁵ *Asia One*, 2022 (all): (i) India To Strengthen..., Aug. 12.; & (ii) India's Strategic Response, n.d.; and Sultana, G., 2022. Indian assistance to crisis-ridden Sri Lanka, July 31.

¹⁴⁶ *Embassy of Sri Lanka at Türkiye*, n.d. (all): (i) Investment Opportunities.; (ii) Sri Lanka's Debt Crisis.; & (iii) Sri Lanka's Economic Potential.; and, Sultana, G., 2022. Indian assistance to crisis-ridden Sri Lanka, July 31

¹⁴⁷ *ICC in Slovak Republic*, (all): (i) Indian Chamber of Commerce in Slovak Republic, n.d., & (ii) Indo-Sri Lanka Free Trade Agreement... n.d.; and, Sultana, G., 2022. Indian assistance to crisis-ridden Sri Lanka, July 31

¹⁴⁸ Sultana, G., 2022. Indian assistance to crisis-ridden Sri Lanka, July 31

¹⁴⁹ *Ibid.*

¹⁵⁰ *Ibid.*

¹⁵¹ *ICC in Slovak Republic*, n.d. Indian Chamber of Commerce in Slovak Republic; ICC in Slovak Republic, n.d. Indo-Sri Lanka Free Trade Agreement: Boosting Economic Ties.

¹⁵² *Asia One*, 2022 (all): (i) India To Strengthen..., Aug. 12.; & (ii) India's Strategic Response, n.d.;

¹⁵³ *ICC in Slovak Republic*, (all): (i) Indian Chamber of Commerce in Slovak Republic, n.d., & (ii) Indo-Sri Lanka Free Trade Agreement... n.d.; and, Sultana, G., 2022. Indian assistance to crisis-ridden Sri Lanka, July 31

9.1.2 Energy Sector: The energy sector represents a crucial area for India's strategic investments, particularly with a focus on renewable energy. India's involvement in renewable energy projects, such as NTPC's solar power project at Sampur, highlights its commitment to promoting sustainable development and environmental stewardship in Sri Lanka¹⁵⁴. This collaboration with the Ceylon Electricity Board is instrumental in reducing Sri Lanka's dependency on fossil fuels, thus contributing to the country's clean energy transition¹⁵⁵. Moreover, the Adani Group's substantial \$70 billion green energy initiatives further illustrate India's investment in Sri Lanka's journey toward sustainable energy sources¹⁵⁶. These projects not only address environmental concerns but also play a vital role in economic diversification and resilience¹⁵⁷. India's investments in the energy sector support Sri Lanka's sustainability objectives while aligning with the broader regional agenda for clean energy and environmental sustainability.

9.1.3 Education and Skill Development: Collaborations in education and skill development form another pillar of India's strategic investments in Sri Lanka. By supporting initiatives aimed at enhancing the quality of education and vocational training, India assists in building a skilled workforce that is vital for driving Sri Lanka's economic growth¹⁵⁸. These efforts empower Sri Lanka's population with the necessary skills to compete in a modern economy, fostering long-term economic development¹⁵⁹. Through investments in human capital, India not only contributes to Sri Lanka's growth but also strengthens bilateral relations through shared educational and training initiatives, reinforcing the socio-economic fabric of both nations.

9.1.4 Technology and Innovation: India's strategic engagement with Sri Lanka is also evident in the technology and innovation sectors. Joint ventures and collaborative research initiatives aim to position Sri Lanka as a regional hub for technology start-ups and innovation¹⁶⁰. By fostering a knowledge-driven economy, India helps Sri Lanka leverage technological advancements to bolster its economic capabilities¹⁶¹. These initiatives not only stimulate economic growth but also deepen the bilateral partnership through collaborative innovation and technological research¹⁶². A focus on technology and innovation is critical for driving competitive advantage and building a dynamic economic environment in Sri Lanka, thereby enhancing the region's overall technological landscape.

9.1.5 Healthcare Sector: In the healthcare sector, India's investments include the establishment of the India-Sri Lanka Joint Venture Hospital, which represents a significant step toward improving healthcare infrastructure and services in Sri Lanka. This collaboration enhances access to quality healthcare, reflecting India's commitment to the well-being of the Sri Lankan population and contributing to regional health security¹⁶³. The joint venture focuses on providing a range of services, including advanced diagnostic facilities and specialized treatments, thereby addressing healthcare disparities and ensuring essential medical services are accessible to all citizens. Moreover, there is a possibility for India to further bolster healthcare initiatives through collaborative research in emerging health technologies and

¹⁵⁴ *Asia One*, 2022 (all): (i) India To Strengthen..., Aug. 12.; & (ii) India's Strategic Response, n.d.;

¹⁵⁵ *Ibid.*

¹⁵⁶ *Ibid.*

¹⁵⁷ *Ibid.*

¹⁵⁸ Sultana, G., 2022. Indian assistance to crisis-ridden Sri Lanka, July 31

¹⁵⁹ *Ibid.*

¹⁶⁰ *Ibid.*

¹⁶¹ *Ibid.*

¹⁶² *Ibid.*

¹⁶³ *Ibid.*

innovations¹⁶⁴. By leveraging its expertise in telemedicine and digital health, India can help Sri Lanka implement effective remote healthcare solutions, especially in rural areas. Initiatives like these could enhance health literacy and preventive care, ultimately leading to better health outcomes. Additionally, India can support joint training programmes for healthcare professionals, fostering knowledge exchange and capacity building. Through these concerted efforts, both nations can build a robust healthcare framework that not only meets current demands but also anticipates future health challenges, ensuring a resilient public health system for the region.

10. CONCLUSION: INDIA'S STRATEGIC ENGAGEMENT WITH SRI LANKA: A PATH TO RESILIENCE AND REGIONAL STABILITY

India's strategic engagement in critical sectors of Sri Lanka's economy is fundamental for both nations' futures and for fostering regional stability in South Asia. By strategically investing in areas that promote economic resilience and shared prosperity—such as infrastructure, energy, education, technology, and healthcare—India can effectively counter Chinese influence and contribute to a stable and prosperous region¹⁶⁵. The focus on significant infrastructure investments, including the Adani Group's deep-sea container facility project, is designed to compete directly with China's Belt and Road Initiative (BRI) and reinforce India's commitment to Sri Lanka's development¹⁶⁶. Furthermore, India's comprehensive financial aid package, which encompasses \$1.5 billion in credit, \$2.4 billion in aid to address essential commodity shortages, and a \$400 million currency swap agreement, aims to secure economic resilience while promoting trade and addressing both immediate and long-term needs in Sri Lanka¹⁶⁷. This economic engagement not only stimulates growth but also reinforces the strategic partnership between the two nations, serving as a counterbalance to the risks associated with overdependence on Chinese investments¹⁶⁸. However, learning from Sri Lanka's past challenges—marked by dependency on Chinese loans that have catalysed economic instability, political unrest, and humanitarian crises—India must concentrate on strategies that promote resilience and mitigate the risks of encirclement by China¹⁶⁹. The recent financial entrapment of Sri Lanka, most particularly of Chinese investments in major infrastructure projects like the Hambantota and Colombo Ports, underscores the dangers of relying too heavily on a single foreign creditor exemplifying to the extent that the geopolitical risks associated with debt-trap diplomacy can take to¹⁷⁰. As Sri Lanka's new government navigates its foreign policy amidst this delicate balancing act, it must critically assess its previous alignments with China, which have jeopardised its sovereignty and led to profound geopolitical consequences¹⁷¹.

¹⁶⁴ *Asia One*, 2022 (all): (i) India To Strengthen..., Aug. 12.; & (ii) India's Strategic Response, n.d.; and, Sultana, G., 2022. Indian assistance to crisis-ridden Sri Lanka, July 31.

¹⁶⁵ *Asia One*, 2022 (all): (i) India To Strengthen..., Aug. 12.; & (ii) India's Strategic Response, n.d.; and, Nandakumar, V., 2022. Sri Lanka's Strategic Ambiguity Won't Hold, *The Diplomat*, Aug. 19; Kandaudahewa, H. 2023. Sri Lanka's strategic dilemma...*Journal of Indo-Pacific Affairs.*; Abeyagoonasekera, A., 2021. *Sri Lanka and the new Cold War...*; *LSE Conflict and Civil Society Research Unit*, Jan. 12.; & Moramudali, U., 2021. *The economics of the China-India-Sri Lanka triangle...*; *The Diplomat* May 1..

¹⁶⁶ *The Mint*. (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...

¹⁶⁷ Ganguly, 2024. What Sri Lanka's election means, *Foreign Policy*, Sept. 24; *CNBC TV18*, 2022. Sri Lanka declares bankruptcy, what happens next? July 9.

¹⁶⁸ Ganguly, 2024. What Sri Lanka's election means, *Foreign Policy*, Sept. 24.

¹⁶⁹ Kelegama, S. (2014). The India-Sri Lanka Free Trade Agreement and the Proposed Comprehensive Economic Partnership Agreement.....; Abhyaratne, A., & Varma, S. (n.d.). Impact of FTAs on Trade Flows.....; *Times of India*, 2022 (all): (i) Sri Lanka's Political Crisis... July 16; (ii) Explainer: What's happened and... July 13; & (iii) Sri Lanka requests IMF for... April 19; & (iv) Explained: How Sri Lanka's economic... May 9..

¹⁷⁰ *The Mint*. (2021) (all): (i) China's strategic expansion...; (ii) Sri Lanka and China's Belt...; & (iii) India counters China in...

¹⁷¹ Nandakumar, V., 2022. Sri Lanka's Strategic Ambiguity Won't Hold, *The Diplomat*, Aug. 19; Kandaudahewa, H. 2023. Sri Lanka's strategic dilemma...*Journal of Indo-Pacific Affairs.*; Abeyagoonasekera, A., 2021. *Sri Lanka and the new Cold War...*; *LSE Conflict and*

India's proactive engagement in enhancing maritime security, strengthening diplomatic cooperation, and undertaking collaborative security initiatives will not only bolster regional maritime stability but also enable Sri Lanka to reassess foreign agreements that may compromise its autonomy¹⁷². On the other side, by advocating for sustainable development and enhanced governance, India can support Sri Lanka in navigating future challenges and diversifying its investment sources. To effectively engage with the new government in Sri Lanka, India must prioritise dialogue that reinforces shared values of democracy and development while offering support that aligns with Sri Lanka's strategic interests. The diplomatic engagement must be of a wholesome of statecraft approach that not only facilitates the exchange of mutual interests and concerns, but also foster a resilient partnership to long term progress and peace in the region.

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¹⁷² Ganguly, 2024. What Sri Lanka's.; *Foreign Policy*, Sept. 24; Sharma, 2024. Sri Lanka election, *Business Standard*, Sept. 26; Wason, 2024. A new chapter, *Hindustan Times*, Sept. 24.

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