Superpowers and Small States:
U.S., China, and India Vie for Influence in Sri Lanka

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INTRODUCTION

Sri Lanka today has a complex history and a dynamic social and political environment. Following decades of civil and ethnic conflict, Sri Lanka is now a relatively peaceful democratic state that has made important strides in addressing its economic and human development goals. These achievements are, in part, a function of Sri Lanka’s strategic location and ability to attract resources from multiple foreign policy partners. Since its independence from Great Britain in 1948, India, China, and the U.S. have all sought stronger ties to Sri Lanka, making this country an important case study of small power-large power relations. Traditionally, Sri Lanka was closely allied with the British and Indian governments. Sri Lanka also played an early and important role in the formulation of the Non-Aligned Movement (NAM). During Sri Lanka’s protracted civil war, leaders received assistance and criticism from several fronts. In more recent years, and especially during the Rajapaksa administration (2005-2015), Sri Lanka’s economic ties to China grew. India, the U.S., and many in the Tamil diaspora expressed concerns about the warming relations with China. Following the election of the Sirisena administration in January 2015, much was made of the potential for a shift Sri Lanka’s economic alliances. Many Chinese projects in Sri Lanka were put on hold, and the U.S. reinvigorated its nearly defunct aid program. India agreed to significant new economic development assistance for Sri Lanka. However, within a few months, Sri Lanka had rekindled its relations with China and construction on economic development projects resumed. How can we best understand the complex, shifting alliances between Sri Lanka and the superpowers of India, China and the US?

As a small state in a strategic location, Sri Lanka has seized upon an alliance strategy best described as “hedging.” Rather than allying itself decisively with one power or another, Sri Lanka has moved rather fluidly among allies, courting economic development assistance and foreign aid. Officials seems to understand the wisdom of doing business with a variety of partners. By contrast, the US government has tended to view Sri Lanka as either pro-India or pro-China. Lacking a more nuanced understanding of Sri Lankan alliance strategy, the US has been openly and overly simplistically “anti-Rajapaksa” and “pro-Sirisena” in recent years. In the five years prior to the election of January 2015, the US Embassy grew increasingly frustrated with Sri Lanka’s growing ties to China. In response, USAID in Sri Lanka was “downsized.” Sri Lankan staff members were dramatically reduced through attrition, and new US staff were not brought in to replace officers who returned to the US. After President Sirisena came to power in January 2015, USAID suddenly began to once again reestablish itself in the Sri Lankan aid community. When Secretary of State Kerry visited in April 2015, he pledged $40 million dollars of new USAID spending. This dramatic policy about-face provides an interesting setting for studying the politics of U.S. foreign aid policy to Sri Lanka.

Drawing on documentary evidence, secondary sources, and interviews with Sri Lankan and US officials, this paper points to the mutual impact that regional powers and small states may have on one another. Small states are not mere pawns on a chessboard dominated by great powers; they also can exercise significant leverage in managing their external relations. Sri Lanka is a case study which provides insight into how large powers compete for influence in small states, and how small states can use this competition to their advantage.
OVERVIEW AND RESEARCH QUESTIONS

Recent history has been marked by the rapid proliferation of small states, yet the vast majority of international relations literature examines the behavior of great powers. Of the nearly 200 member states of the United Nations, more than three-fourths are smaller powers or micro-states. While acknowledging Waltz’s (1986:73) famous assertion that, “concern with international politics as a system requires concentration on the states that make the most difference,” we must also note that small states can impact the behavior of great powers as well. Moreover, the sheer number of small states, and the fact that they face a very different set of risks and rewards in formulation of their foreign policy, makes them worthy of analysis. While Sri Lanka easily can be dismissed as a small state with little relevance for the great powers, studying how Sri Lanka reacts to changing international circumstances can teach us important lessons about alliance formulation and the relevance of traditional theories such as ‘balancing’ and “bandwagoning” (Walt). In addition, the reaction of a “great power” such as the United States to political change in a relatively small, distant state such as Sri Lanka is instructive.

I examine the historic and strategic relations between Sri Lanka and three much larger powers – India, China, and the United States. These strategic relations are located within a long history of Sri Lanka’s shifting relations among Great Britain, India, and China. My aim is to provide insights into how a small state copes with changing external power structures, demonstrating that they are not merely reactive, but also pro-active in influencing these shifting alliances. Next, I consider U.S. foreign aid policy in Sri Lanka as a function of both external balance of power concerns and in light of pressures from the donor and host countries. Thus, U.S. foreign policy is seen as a “two level game,” emerging from explanations at the level of system structure and the level of domestic politics.

Most fundamentally, we can agree that the international state system puts a premium on state sovereignty. Small states like Sri Lanka are particularly sovereignty-sensitive given their status vis-à-vis larger and more influential states in the region. Ethnicity, caste, and religion can complicate these relationships as can historical experience and economic resources. Leaders of small states may be acutely aware of their need to maintain sovereignty and avoid outside interference in their countries’ affairs. Still, small states are likely to feel militarily and economically disadvantaged in efforts to delineate themselves from their larger neighbors. Confronted with this security dilemma, conventional wisdom suggests they would seek power through alliances, most likely ‘bandwagoning’ with one regional power in an effort to balance another regional power (Walt 1987).

Sri Lanka can be viewed as a classic example of a relatively small state seeking to maintain its sovereignty via military, economic, and political alliances. Given its small size, and its military and economic weakness, we would expect Sri Lanka to accept the support and alliance of the most proximate regional power – India. However, it would be inaccurate to describe the small state of Sri Lanka as sacrificing its sovereignty to India or existing at the mercy of any regional giants. Rather, I describe the environment as one in which Sri Lanka is able to use its assets to shift its allegiance between India and China, while at the same time remaining in the good graces of the United States and many other countries.
SMALL STATES AND ALLIANCE LITERATURE

The development of international relations theory focuses on large powers; in fact, it tends to focus on only the largest (or “great”) powers. This fundamental flaw in international relations theory development means that we miss out on the analysis of the vast majority of cases. Elman (1995:172) writes, “While IR theorists have addressed the foreign policies of great powers, they have largely ignored the study of small states.” And yet without small states, there are no great powers. As Beyer et al (2006:21) observe, “Small states and great powers are mutually constitutive -- if there were no small states there could be no great powers.”

How, in fact, do we define “small states”? Clearly, state power must be considered in light of more objective variables such as population, size, social-economic standing and geopolitical position. Relative power is another crucial element of defining small states. Rapaport et al (1971) argue that small states are defined by their relative power position, and Handel (1981) claims weak states comprise those along a continuum from the weakest through the middle powers. Handel says small states are defined as those that cannot defend themselves by their own efforts against any of the great powers. Molis (2006) claims that the power position of a states is determined by its, “comparative power and geopolitical position.”

By definition, then, small states are at a disadvantage relative to the larger powers. But does that relationship mean they cannot play a role in determining the nature of their alliances? To what extent are small states such as Sri Lanka “victims” of the international state structure? Traditional realist arguments posit that smaller, weaker states are more subject to international system structure than are great powers. Citing realists such as Rosenau (1966) and Jervis (1978), Elman (1995:176) notes that the “scholarly consensus” is that, “the international environment will be more important in an analysis of small state rather than great power foreign policy.” The argument suggests that leaders in small states much be more attuned to external constraints and aware of the costs of anarchy. In her examination of US, and Eastern European decision-making, Elman dismisses this traditional notion. She notes that the relatively large number of newly independent states that are moving toward democracy have followed a variety of paths, reflecting their particular domestic political environment as much as international system structure (217). Similarly, Katzenstein (1985) cites the importance of domestic political institutions in shaping their positioning in the global marketplace. In Small States in World Markets (1985), Katzenstein emphasizes that states that are conventionally considered to be less powerful are able to maintain their autonomous political institutions while integrating into the global economy. Prior work citing the importance of domestic political structures on international political structures is borne out by this analysis of Sri Lanka. We will see that this small state’s decision to position itself among great powers is as much a function of domestic politics as international structure. What is more, the small South Asian country appears to be able to use its position between regional powers to its advantage, rather than being controlled by of the international system structure.

Traditional IR theory proposes that states opt for either “bandwagoning” or “balancing” alliances (Walt 1987). Realizing that they lack resources and capacity to influence the international system, logic suggests that small states are more likely to bandwagon with larger, more powerful states. As Waltz writes, “The weaker the state, the more likely it is to bandwagon. Balancing may seem unwise because one’s allies may not be able to provide assistance quickly
enough...States that are close to a country with large offensive capabilities...may be forced to bandwagon because balancing alliances are simply not viable (1987:25).”

Less well-known alliance theory literature raises the possibility of small states employing a policy of “hedging.” Tessman (2012) argues that IR theorists need to “add hedging to the menu” (192) in order to better explain the alliance choices of small states. Hedging “allows a small power, interested in immediate gain, to offset risks and improve its situation in relation to the rising power while avoiding a major confrontation” [with existing alliances] (Guzansky 2015:120). In energy policy, hedging implies diversification of supplies to reduce dependencies. For small states, hedging implies continuing alliances with traditional security partners while engaging economically with an ascending power. Citing Goh’s (2007) example of Southeast Asian states using hedging to strike a middle path between dependence on the US and China, Tessman argues that hedging is more likely to occur as power is “deconcentrated” in an increasingly multipolar system (203). Hedging is relatively common today among small states in the Middle East, according to Guzansky, who cites the example of Kuwait employing a hedging strategy in its alliances with Iran and Iraq. As we note below, this description of “hedging” very accurately describes Sri Lanka’s alliance behavior. As power has “deconcentrated” in the international system, the Colombo government has used hedging to “strike a middle path” and avoid complete dependence on any one regional power. This enables Sri Lanka to avoid any major confrontation and maximize its economic and diplomatic relations with China, India, the US, and other states in an interest in South Asia.

Although the popular press in South Asia has noted Sri Lanka’s attempts to court China while preserving good relations with India (Bhatia, Shaphard), the academic literature has not yet applied the theoretical concept of “hedging” to or many other cases. Examining two particular periods in Sri Lankan history, Gunasekara (2015) argues that the early government in Colombo used a bandwagoning alliance strategy with Britain to ward off perceived Indian aggression toward Sri Lanka in the immediate aftermath of independence. Gunasekara suggests that Sri Lanka moved to a balancing when it became a lead country in the Non-Aligned Movement in the 1970s, though that argument is flawed by the supposition that NAM had to power to balance with the US or USSR during the Cold War. Rather, Sri Lanka’s consistent practice of maintaining friendly relations with all great powers, seems best described as hedging.

FOREIGN AID LITERATURE

Examining US foreign aid policy in Sri Lanka follows directly from prior research into the objectives of U.S. foreign aid (Diven 2001; 2006; 2010). US foreign aid has traditionally served a host of overlapping domestic and international goals, including expanding US trade, promoting the economic stability of American agriculture, encouraging economic development, gaining access to strategic materials, enhancing national security, and promoting alliances (Maisels and Nissanke 1984; Trumbull and Wall 1994). Throughout its history, changes in the organization and size of the U.S. foreign aid program have reflected the demands of a variety of humanitarian, ideological, security and economic interests (Riddell 1987; Meernik et al 1998). Mosley (1987) highlights the importance of both the “supply” and the demand” sides in the foreign aid equation, and evaluates foreign aid in light of both humanitarian and export subsidy goals. In a comprehensive empirical analysis of foreign aid during the Reagan and Bush
administrations, Payaslian (1999) finds a clear divide between the motivations for economic versus military assistance. Payaslian also identifies strong evidence for the ideological objectives of foreign aid. Eberstadt (1989:6) represents a more instrumentalist/realist approach to foreign aid, arguing that foreign aid should, "augment American political power throughout the world . . . (and) support the postwar liberal international economic order." He is critical of multilateral (UN, e.g.) channels for foreign aid, and believes that foreign aid is a logical means to extending the U.S. reach. The literature documenting the multiple objectives of US foreign aid are further evidence of the two-level games that simultaneously take place in foreign policy-making. In the case of US foreign aid to Sri Lanka, we will see that monies have been expended and withdrawn as a signal of approval or disdain. The decision-making that went into making US aid policy in Sri Lanka in recent years provides evidence of aid as an overly-simplistic view of the Sri Lankan capabilities and the US ability to a role in the region.

HYPOTHESES

This research tests the following hypotheses:

1. Sri Lankan foreign policy behavior demonstrates that, in spite of its relatively weak economic and military standing, this small state is able to exercise power in its alliance-formation. Balancing and bandwagoning alliance theories do not adequately describe Sri Lanka’s policy with regional powers. During much of its history, Sri Lanka has engaged in “hedging” alliance behavior to its advantage. This continues today.

2. US foreign aid policy in Sri Lanka has been influenced by Sri Lankan “hedging.” In 2015, the US abruptly altered its foreign aid policy in Sri Lanka in response to Sri Lankan electoral outcomes. Suddenly reversing course in response to the election results, the US assumed Sri Lanka was moving its primary alliance from China to India. The US did not recognize that Sri Lanka was continuing to hedge among all alliances and would quickly move back to a balanced approach between India and China.

DATA AND METHODS

My research investigates both Sri Lanka’s alliance formation and the objectives of US foreign aid policy in Sri Lanka. This manuscript is based on documentary evidence and interviews conducted in Sri Lanka and in the US. This is a case study of one small state, but I argue that Sri Lanka’s relationship with larger powers is a critical case study of alliances among asymmetrical states that demonstrates the importance of hedging. The fact that states with much greater military and economic power take relations with Sri Lanka seriously is itself important. Sri Lanka’s small size and relative lack of power make it a crucial case for validating a general principle about hedging as an alliance strategy and the importance of small states. As described by Eckstein (1975) and Gerring (2007:232), “…the ‘crucial case’ is a most difficult case for an argument and hence provides what is, arguably, the strongest sort of evidence possible in a non-experimental, case study setting.” If the US, India, and China have a substantial investments and presence in a country that is so distant and small, this demonstrates a willingness for states to consider every potential alliance partner more carefully than we would have previously expected.
THE CASE OF SRI LANKA

History

With approximately 22 million people living on an island the size of West Virginia, Sri Lanka is a small state, yet it looms large in colonial history. Decades of civil and ethnic conflict followed independence in 1948 in this multi-ethnic, multi-lingual state. In ancient times, Sinhalese, Tamil and other ethnic groups on the island of Ceylon built and battled over the historical cities such as Polonnaruwa and Anuradhapura. Although the majority of the island population has always been Sinhala, the Eelam Tamils are descendants of the Jaffna kingdom and have consistently been the majority population in the northern and eastern portions of the island. These Eelam Tamils are distinguished from the “Indian Tamils” or “Hill Country Tamils” who the British brought to Sri Lanka to work on plantations in the 1800s. The Indian Tamils did not join in the civil war and do not embrace the idea of an independent Tamil state. The largest share of Sinhala people are Buddhists and both Indian and traditional Tamils are Hindus, though the former are more integrated and likely to speak Sinhala than the latter. Another substantial portion of the ethnically Tamil people are descended from Moorish traders (Ramanathan). Muslims today comprise about 10 percent of the total population. The Muslims in Sri Lanka are Sunni, but they are no Arabs and their first language is usually Tamil. They are the fastest growing ethnic group in Sri Lanka today.

Table 1:¹

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>Percent of Population (2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sinhalese</td>
<td>75%</td>
</tr>
<tr>
<td>Tamil Eelam</td>
<td>11%</td>
</tr>
<tr>
<td>Indian Tamil</td>
<td>4%</td>
</tr>
<tr>
<td>Muslim (Moors, Malay)</td>
<td>10%</td>
</tr>
</tbody>
</table>

Ceylon was colonized sequentially by the Portuguese, the Dutch, and the British, and the land was exploited for cinnamon, coffee, tea, and rubber. The Portuguese arrived in 1505, having wrested control from several separate warring kingdoms in Kandy, Jaffna, and elsewhere on the island. During the next 150 years, Portuguese colonists converted many lowland peoples to Christianity and developed much of the area around Colombo. In response to Portuguese brutality, King Rajasinghe II invited the Dutch join him in a struggle against the Portuguese. This may be the first instance in Sri Lankan history of the native leadership colluding with one external power against another. In this case, however, a protracted war ensued and control of Ceylon eventually fell to the Dutch in 1656. After using King Rajasinghe’s cooperation to oust the Portuguese, the Dutch turn on the king. They barred him from entering their capital cities and sent him a bill for the cost of the war, which he was unable and unwilling to pay (deSilva 1986).

¹ Source: CIA World Factbook online at: https://www.cia.gov/library/publications/the-world-factbook/geos/ce.html
During the next century (approximately 1650-1770), the Dutch gained control of most of the island. The Dutch East India Company exploited the land for cinnamon and rice, and the surrounding waters for pearls. During both the Portuguese and Dutch colonial eras, the Sinhalese and Tamil portions of the island were ruled as separate entities, with Kandy and Galle as the primary administrative capitals of the Sinhalese and Jaffna as the primary administrative city for the Tamils (Chandrakanthan 2000:177).

From 1788-1795, the British and the Dutch struggled over several holdings in what is now South Asia. Eventually the British laid claim to most of the disputed territory in 1796, including large parts of India and all of Ceylon. To facilitate export commercial traffic and enhance administrative convenience, the British gradually established single centralized control of Ceylon. The British government and East India Trading Company were partners in export development. First cinnamon, then coffee, and then tea plantations in the highlands flourished. Coffee was the dominant crop until the infamous “coffee rust” virus destroyed the plants in 1869. Tea was introduced shortly thereafter and the area under tea cultivation grew from 1000 acres in 1875 to more than 300,000 acres in 1900. This industry, spear-headed by Sir Thomas Lipton, was a huge economic boon to the British colonists (da Silva 1986). British colonialism also included Christian missionary activities which primarily took place in Jaffna and other Tamil-dominated areas. American missionaries also were active in Jaffna province during the British colonial era, and their activities were an important cause of the imbalance between Tamil and Sinhalese literacy at independence (Arunthavaraja 2013). Rogers (1994) notes the overlapping and complex nature of the ethnic, religious, language, and caste categories in Sri Lanka that became prominent during the British colonial period.

In the early twentieth century, a series of protests and riots began to break out in Ceylon. In 1915, a commercial-ethnic rivalry in Colombo between Muslims (Moors) and Buddhists erupted. The British responded in a heavy-handed fashion that drew the opposing sides together. In 1919, The Ceylon National Congress was founded to pressure the colonial government for greater self-sufficiency. After the outbreak of the Second World War, the independence agitators opposed the use of Ceylon’s tax revenues in support of the British war fund. Although repression kept the unrest under control during the war years, after WWII, there were a wave of strikes in Colombo. In addition, the All-Ceylon Peasant Congress took action on the compulsory collection of rice by the government. Farmers refused to give their rice to the government and hundreds were charged in the courts. In 1946, the Congress compelled the Ministers to drop the system of compulsory collection.

When independence occurred in 1948, administrative power was transferred to the Sinhalese leader D.S. Senanayake. As this time, the Sinhalese claim to territorial ownership of the entire island seemed legitimate to many, but frustrations among other groups grew as the newly-formed Parliament did nothing to legitimize Tamil administrative or economic claims (Chandrakanthan 2000:55-63). Thus, at independence, Sri Lanka was characterized by a host of ethnic, religious, and linguistic cleavages. Thrice colonized, the newly independent state reflected a huge diversity in everything from economic development, architectural styles, and religious practices. Building a nation-state from this starting point was destined to be difficult.
Ethnic Tension and Civil War

It was difficult to promote Sri Lankan nationalism and unity and not be perceived as trying to disadvantage the Tamil and Muslim minority groups. Due to the British practice of “divide and rule” (Mihler 2006), colonial practices favoring Tamils were standard. The ethnic group that comprised only about 15 percent of the population dominated the enrollment at the country’s universities and held approximately 30 percent of Ceylon administrative service jobs. After independence, the majority Sinhalese population was increasing able to dominate the government, civil service, and armed forces. By 1970, Civil Service positions held by Tamils had dropped from 30 percent in 1956 to five percent (deSilva 1986).

When Parliament passed the Official Language Act of 1956 (better known as the Sinhala Only Act), the national language was changed from English to Sinhala. Similarly, when the Sinhalese-led government took control of the schools in 1960, they described it as an effort to replace colonial-based, Christian-infused education with something more authentic to Sri Lanka. Tamils and Muslims understood these act of Sinhalese nationalism as symbols of minority oppression. During the 1970s, tensions grew among ethnic groups. The U.S. Ambassador to Sri Lanka during this time, Howard Wriggins, writes that, “between 1970 and 1977, the Tamil minority increasingly saw themselves becoming second-class citizens” (Wriggins in Holt 2011:612). Wriggins argues that the contraction of economic activity due to the 1973-74 oil crisis and a series of poor monsoons exacerbated the tension. The communities drifted farther apart during Wriggins’ stay, and several violent protests by Tamils began in 1977.

Nationwide conflicts began in July 1983, when the newly named “Tamil Tigers” (or Liberation Tigers of Tamil Eelam or LTTE) attacked a military barracks in Jaffna and killed thirteen soldiers. Widespread retribution occurred for ten days in what became known as “Black July,” as mobs of Sinhalese killed approximately 3000 Tamils and destroyed $300 million of property throughout the country. According to the Armed Conflict Database (IISS), the LTTE carried out a total of 168 suicide attacks in Sri Lanka between 1980 and 2000. Pape (2006) credits the Tamil Tigers with world-wide pioneering of the suicide attack as a strategy in war. The worst attacks included a crowded bus terminal in Anuradhapura in 1985 which resulted in 185 fatalities, and a 1998 truck bomb in the UNESCO World Heritage Site in Kandy, the sacred Temple of the Tooth. During this lengthy civil war, the LTTE also in assassinated Indian leaders (including Rajiv Gandhi in 1991), and a Sri Lankan President (Kumaratunga in 1999).

During the early years of the civil conflict, India supported the Sri Lankan government while the Tamil Nadu provincial government provided assistance to the LTTE. From 1983-1987, India held an economic blockade against the LTTE and assisted the Colombo government with military hardware and training. However, in June 1987, India airlifted 25 tons of food and medical supplies into Tamil held areas. India’s shifting tactics were partially due to the fact that the Rajiv Gandhi government had grown tired of refugee inflows from Sri Lanka. The Indian government also was worn down by angry outbursts by the Indian Tamil population (Paul). This 1987 airlift of supplies into the Jaffna region of Sri Lanka was seen as a humanitarian gesture by the Tamil Nadu Indians, but the Sri Lankans believed that Operation Poomalai (“lentil drop”) was a violation of Sri Lanka’s sovereignty. To this day, Sri Lankans refer to this as Indian interference in internal affairs (Interviews, 2/2016). Shortly after the Indian air drop in 1987, the
Sri Lankan military ended its blockade against the Tamils and concluded the first of several ceasefires with the LTTE (Weisman 1987). While Indians from Tamil Nadu province continued to support the LTTE, the Indian government and general population did not support further Indian involvement in the Sri Lankan civil war after 1987. In 1991, the Indian Prime Minister Gandhi and thirteen other people were killed by a suicide truck bomber from Jaffna province (Crossette 1991). Analysts argue that the LTTE dealt themselves a fatal blow with this attack, since India then turned fully away from any support of LTTE efforts.

From 1995 to 2004, the warring parties alternated between negotiated political solutions and periods of heightened violence. There were repeated ceasefires that were violated by the government or the LTTE or both. Increasing numbers of Tamils in exile in the US and Canada drew western attention to human rights abuses by the Sinhalese-dominated government against the Tamils. In 2002, the Sri Lankan government lifted its long-standing ban on the LTTE in exchange for peace talks held in Thailand. The LTTE agreed to abandon its demands for internal self-determination and to settle for “substantial regional autonomy.” In 2003, a donor conference in Tokyo provided for additional aid and trade with the island in support of a negotiated settlement. A ceasefire agreement was made in Norway, but again violence broke out. Finally, President Kumaratunga declared a state of emergency, suspended Parliament, and dismissed advisors who had been involved with the LTTE negotiations. From that time forward, the Sri Lankan government followed a policy of using brute force to end the LTTE insurgency.²

By July 2007, the LTTE was completely pushed out of the eastern part of the country. In 2008, brutal strikes against the Tamil insurgency resulted in repeated reports of human rights violations. Chinese military assistance was eventually instrumental in the Sri Lankan military victory over the LTTE. “When the US ended direct military aid in 2007 over Sri Lanka’s deteriorating human rights record, China leapt into the breach, increasing aid to nearly $1bn (£690m) to become the island’s biggest donor, giving tens of millions of dollars’ worth of sophisticated weapons, and making a free gift of six F7 fighter jets to the Sri Lankan air force” (The Independent 2010).

In May 2009, President Rajapaksa announced that the LTTE was finally defeated and that after 23 years, the conflict was over. He was re-elected to a second five year term in 2010. Although human rights abuses and war crimes continued to be investigated (especially with pressure from Tamil populations in exile), a period of peace followed during which Sri Lanka has experienced a period of foreign direct investment and impressive economic growth. Efforts at “reconciliation” have, not surprisingly, heavily favored the victors. Promises for Tamil autonomy have not been kept.

Current Government, Parties, and Institutions

Since the end of the Civil war, Sri Lanka has been a relatively peaceful and stable democratic state. According the CIA World Factbook, the Sri Lankan economy has grown

²In December 2004, a powerful tsunami struck the south and west part of the country. For a short period, hostilities were paused. The tsunami 35,000 Sri Lankans and destroyed 100,000 homes in the worst natural disaster to ever strike the country.
approximately 4-5% per year in recent years, and the GDP per capita has increased as well, standing at $10,600 in 2015. The unemployment rate is approximately 4-5 percent and about 8-9 percent of the population live below the poverty line. Adult literacy is above 90 percent and life expectancy is 75 years. The CIA World Factbook also notes that 30 percent of the GDP is from industry and that most of this is the garment industry. Much of the rest of the economy is based on the service sector and tourism represents the bulk of that income. Given the country’s physical beauty, fertile land, and strategic location in South Asia, Sri Lanka has often been referred to as the “pearl” in the Indian Ocean. Sri Lanka lies just a few nautical miles away from the major east-west shipping route, through which an estimated 60,000 ships pass every year, carrying two-thirds of the world’s oil and half of all container shipments. Sri Lanka is the pivotal point for a global grand strategy," R. Hariharan, a retired Indian army colonel and specialist in South Asian geopolitics, told CNBC. "Sri Lanka's geography gives it an advantage disproportionate to its size” (Bhatia).

Currently two principal parties dominate Sri Lankan politics. The Sri Lankan Freedom Party (SLFP) is a center-left party that is socialist in ideology. The United National Party (UNP) traditionally follows a pro-capitalist, neo-liberal, center-right path. Despite their ideological differences, these parties have much in common. Both parties are led by well-known political families and both parties have strong Sinhalese nationalist leanings.

Sri Lanka is considered a “personality-dominated” political system (Behuria and Sultana 2013:85), in which the president plays the dominant role and the prime minister’s position is secondary, especially when they represent the same party. Prior to 1978, Sri Lanka relied on more of a Westminster parliamentary model. In 1978, J.R. Jayewardene (from the UNP) was elected to the position of Executive President. Under his leadership, Sri Lanka adopted a new constitution that included an executive post with sweeping presidential powers. Since that time, Sri Lanka has used an executive presidency model that is more akin to the French governing system. The 1978 reforms also ushered in an era of more economic openness and growing foreign investment, including from the United States. Massive spending on development programs took place beginning in that year, including large-scale investments in hydroelectric power and agriculture. Free universal education was also instituted in 1978. Jayewardene served as president until 1989, and was succeeded by two more UNP leaders. His immediate successor, Ranasinghe Premadasa, served from 1989-1993, when he was assassinated by a member of the Tamil LTTE.

In 1994, the left-leaning SLFP took primary control of the Sri Lankan government and Chandrika Kumaratunga became President. She served Sri Lanka at the apex of the Civil War, during the era when ceasefires were established and broken with regularity. Kumaratunga herself survived multiple LTTE assassination attempts and eventually left office of her own accord in 2005. A new SLFP leader, Mahinda Rajapaksa, was elected and served as President from 2005 until 2015. Rajapaksa was known for his fiery rhetoric and pragmatic politics. Upon taking office, Rajapaksa led the aggressive campaign to end the LTTE insurrection. Among many Sinhalese, the Rajapaksa administration is credited with finally ending the deadly civil war. However, the US, UN, and European human rights organizations have all criticized the Rajapaksa administration’s brutal tactics to end the civil war. Members of the Tamil diaspora in the US, India, Canada, and Europe continue to pressure their adopted governments to seek
redress for human rights abuses carried out against the Tamils in Sri Lanka during the final years of the war (Kadirgamar and Thiruvarangan).

President Rajapaksa is also well-known for having cultivated closer relations with China, traveling to China six times from 2006-2013. During his tenure in office Sri Lanka developed numerous large-scale investment initiatives in concert with Chinese financiers, including the vast Port City of Colombo, the port at Hambantota, and the airport in Hambantota as well. Beijing also financed the construction of a performing arts facility named for Rajapaksa. The Rajapaksa administration also had a reputation for corruption and cronyism, and for failing to carry out democratic reforms. According to the Constitution of Sri Lanka, the term of the president is six years. In September 2010, the UPFA-dominated parliament passed the 18th amendment to the Constitution, which made it permissible to presidents to seek a third term. There was some debate as to whether President Rajapaksa was entitled to a third term since he had been elected prior to the passage of the 18th amendment. Nonetheless, in November 2014, the Rajapaksa administration called for early elections to be held in January 2015, two years prior to the end of his second term. In frustration, candidates announced their opposition to Rajapaksa, but the leading opposition candidate emerged as Maithripala Sirisena. Sirisena had been Rajapaksa’s Minister of Health and a lifelong member of the SLFP, but he decided to accept the backing of the UDP and run against Rajapaksa in January 2015.

On January 7, 2015, Maithripala Sirisena was elected to Sri Lanka’s presidency. This outcome took many people by surprise. There were rumors that India had intervened to ensure the outcome (2/2016 interviews), but the vehicle for this intervention is unclear. There were also accusations that Rajapaksa had used the military to suppress turnout in the Tamil-dominated northern and eastern regions of the country. (Agence France-Presse 2015). Turnout was 81.52%, the highest for a Sri Lankan presidential election and significantly more than the 2010 presidential election. Sirisena won 51.28 percent of the vote and Rajapaksa took 47.58 percent (Burke 2015). In spite of accusations of election fraud on both sides, Sirisena was sworn in as Sri Lanka’s sixth president on January 9, 2015. This outcome gave hope to many in Sri Lanka who had lobbied for democratic reforms. Many Tamil leaders also embraced this new presidency as President Sirisena announced that his government would conduct thorough investigations of human rights abuses during the civil war. Also important, Sirisena immediately announced that he would only run for one term and proposed an amendment to the Constitution that would revoke the executive powers put into place by eighteenth amendment. This nineteenth amendment was passed by the Parliament on April 28, 2015, receiving 215 of 225 possible votes in the unicameral legislature.

Crucially, Sirisena announced a “reset” in relations between Sri Lanka and China and Sri Lanka and India. He placed an abrupt halt on Chinese investment and quickly tried to improve diplomatic relations with the US and India. Thus, the 2015 election had an important impact on Indian, Chinese, and US relations with Sri Lanka, as we will see in the sections below. My aim in these sections is to explore the alliance connections between Sri Lanka and its major partners. How does Sri Lanka exercise power in these alliances and how does this demonstrate its hedging strategy?

INDIA AND SRI LANKA
Both the physical and diplomatic connections between India and Sri Lanka have never been fully realized. From a distance it is easy to assume a close connection between two multi-ethnic South Asian states. However, upon close examination it is clear that the relationship between Sri Lanka and India has never been easy. Even the physical link between the two states remains incomplete. As early as 1894, the British had debated building a rail line and bridge to connect Jaffna with Chennai, but though the railway (Mannar Line) was extended from Jaffna north, there still is no bridge traversing this area known as the Palk Strait. There are limestone shoals that form a shallow natural “bridge,” but crossing on foot is extremely difficult. The shallow water also prevents boat travel across the passage.

This “close but not touching” physical linkage is an apt metaphor for Sri Lanka and India’s diplomatic relationship. The early relationship between the two lands was fostered as a result of the two countries’ geographic proximity, cultural and ethnic links, and common colonial heritage. Before and after its independence in 1948, Sri Lanka’s natural ally in South Asia was India. Some western leaders even believed that what was then known as Ceylon would become part of India after independence. However, the relationship has always problematic due to India’s relative size and influence. Traditional IR theory suggests that this asymmetry would automatically result in bandwagoning behavior. Bandwagoning suggests that Sri Lanka, as a small state, would not be able to readily challenge India’s authority and would be forced to align itself with the larger and more powerful state to the immediate north. However, at least in this case, Sri Lanka seemed to recognize from an early stage that its relative size meant it would have to find a way to avoid being absorbed into India’s sphere of influence.

As early as 1939, there was evidence that the new leaders of Ceylon would not join an alliance with India. After a visit to Ceylon in that year, Jawaharlal Nehru reported to the Indian National Congress that Ceylon’s were “creating barriers” between the countries. He said, “They do not seem to realize that while India can do well without Ceylon in the future to come Ceylon may not be able to do without India” (Suryanarayan 2010). Nehru noted early that the Ceylonese leaders were not willing to join forces or fates with India.

Part of Ceylon’s reluctance to align itself with India lies in more than 1,000 years of resistance by indigenous Sinhalese to attempts by Dravidian South Indians, mostly Tamils, to impose cultural and economic hegemony. “Fear of domination by India is an ever-present factor in Sinhalese strategic calculations.” For its part, “India perceives Sri Lanka sitting squarely within its South Asian sphere of influence (Brewster 2015). To ally Ceylon with India would have worked in the interests of a relatively small group of Sri Lankans. Tamils live in the Tamil Nadu region of south India and the Jaffna area of northern and eastern Sri Lanka. Tamils make up less than five percent of the overall Indian population and about fifteen percent of Sri Lanka. At independence, Sinhalese leaders feared that a total withdrawal of English influence would result in greater links between Tamils in Ceylon and Tamils in southern India. Calls for “strategic unity” by Indian leadership were perceived by Sri Lanka’s leadership as a sort of Monroe Doctrine (Behuria and Sultana 86). The result was that Ceylon’s leaders developed a strong strategic alliance with Great Britain in order to avoid being absorbed into India. Gunasekara describes how Sri Lanka’s first Prime Minister, D.S. Senanayake, signed military agreements with Britain to ensure Ceylon’s protection from India. In exchange, the British were
assured continued access to naval and air bases at Trincomalee and Katunayaka. In this way, the
government of Ceylon was protected from Indian expansion and the potential for invasion from
communist countries as well.

This decision to ally itself with Great Britain to compensate for its own weakness fits
Walt’s definition of bandwagoning behavior. As a small state that perceived external threats, Ceylon decided to seek the protection of Great Britain. The exchange of base rights for protection seems to be classic bandwagoning behavior. It is important to note, however, that Sri Lanka consistently maintained friendly relations with India, the “giant to the north.” In fact, during this period, Sri Lanka and India joined in a series of military and trade agreements that belie the idea that Sri Lanka was bandwagoning with Britain. A close examination of government relations with both Great Britain and India seems to indicate that the Colombo government was maintaining good relations with both. In fact, Sri Lanka has joined just about every economic and diplomatic agreement for which it was eligible, in a move that appears to be designed to develop alliances of all kinds. India and Sri Lanka have both been members of the South operative Environment Programme, and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), working to enhance cultural and commercial ties in South Asia. Bilateral economic relations have been solidified as both countries belong to the South Asia Economic Union and the South Asia Free Trade Agreement (SAFTA). Thus, in spite of many tensions between the two states, including periodic Indian support of the Tamil separatists, diplomatic and economic ties have been maintained. This complex pattern of interaction is not neatly categorized as “bandwagoning” or “balancing” alliance formation.

In addition to their bilateral relations, during the 1960s and 1970s, India and Sri Lanka worked together as part of the emerging Non-Aligned Movement (NAM). Both countries were founding members of the movement and both sponsored the NAM proposal at the United Nations in 1971. Of course, there were many other NAM members, including developing countries in Asia, Africa, the Caribbean, and the Middle East. Gunasekara describes the NAM as a balancing alliance of weaker states who attempted to challenge superpowers such as the US and Soviet Union. Given the NAM members’ relative weak military and economic states, realist theorists would question Gunasekara’s description of the NAM as potentially balancing the superpowers. Leaders in Sri Lanka, India, and other NAM states did not really believe that the movement could protect it against intervention by the superpowers. NAM states such as Sri Lanka continued to develop independent alliances with single states even as they pursued the NAM agenda. Gunasekara’s assumption that Sri Lanka’s membership in NAM is evidence of balancing can also be critiqued from a constructivist position. Clearly, small states and former colonies found a common identity and ideological agenda in the NAM. The unity of its members seemed to be more about ideas than geopolitics.

In fact, Sri Lanka’s membership in the NAM is evidence that this small state sought and accepted any alliances it could. During the 1960s, “Ceylon advocated close contacts with countries of either bloc provided such relationship did not involve her in the politics of the cold war,” and “Ceylon, accordingly established diplomatic relations with several countries” (Phadnis 432). By 1971, Sri Lanka was less worried about being absorbed by India, but still was keenly

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3 The name of the country was officially changed from Ceylon to Sri Lanka in 1972.
aware of its relatively weak position relative to the giant to the north. Sri Lanka was in no position to challenge any great power and was continuing its strategy to be a friend to all and enemy to none. Indeed, Sri Lanka has a rich history of joining alliances, movements and organizations as often as it can. Thus the NAM is continued evidence of Sri Lanka’s “hedging” alliance behavior. Whether hedging or merely lose contact in desperation, Sri Lankan leaders have found it advantageous to accept help from all sources. In the 1970s, President Jayewardene sought foreign military assistance from all sources. As Jayewardene later commented, “I would accept help from the Devil itself to break the back of the terrorists” (Brewster 2015:46). During these years the Sri Lankan military received assistance from many countries, including Britain, China, Pakistan, and Israel (Brewster).

Indeed, while there have been variations over time, the best way to describe Sri Lankan relations with India is consistently warm but wary. Over the decades since independence, Sri Lanka and India have always engaged in peaceful diplomatic exchanges. Sinhalese anxiety about potential Indian influence grew stronger when the Indian state of Tamil Nadu provided training and armaments to the LTTE in the 1970s and 1980s. Most experts (da Silva 1986; Wilson 2000; Paul 2008) agree that the greatest amount of strain in relations was related to Indian support of the Tamil insurgency. Clearly, the relationship reached a nadir when India airlifted relief to the LTTE in 1987. And yet, they quickly repaired this “crack in the veneer” and maintained, at least superficially, warm relations. While many military and other government leaders are still critical of India’s support for the Tamils (Interviews), they also understand the importance of maintaining good relations with the giant state that lies directly to their north.

Although India had originally come to the aid of the Tamils in Sri Lanka, eventually India helped Sri Lanka defeat the uprising. Analysis today indicates that Sri Lanka had both Indian and Chinese support to help defeat the Tamil Tigers and end the protracted civil war. When Rajapaksa took office in 2005, he quickly identified alienation of India as a key reason why they had not been able to defeat the LTTE. Mahinda and his brother Gotabaya Rajapaksa (who he appointed defense advisor) paid a state visit to India shortly after his election in 2005 and began enlisting Indian support. During the period from 2007-2009, high level visits between Sri Lankan and Indian leaders took place eight times. Trust and cooperation grew. Despite earlier assistance from Tamil Nadu to the Tamils of Jaffna, Indian military assistance ultimately helped defeat the LTTE in northern Sri Lanka. This support included substantial military aid, including the Indra radar, an offshore patrol boat, and the most important gift of five Mi-15 helicopters. In addition to its own gifts, India aided the Rajapaksa administration in its struggle by “looking the other way” as China sold the Sri Lankans $37.6 million of ammunition, infantry weapons, and armored personnel carriers. India remained ambivalent about smaller quantities of additional military supplies purchased by Sri Lanka from Pakistan (Gokhale 2009).

India has invested $1 billion in Sri Lanka over a ten year period from 2003-2013, and the Indo-Sri Lankan Free Trade Agreement has led to increases in trade and investment in the transportation, telecommunications, energy, and banking sectors. Indian exports regularly account for 14 percent of Sri Lanka’s global imports and India is the fifth largest export destination for Sri Lankan goods. Lalwani (2015) argues that, “India has cultivated much deeper ties in Sri Lanka and provided the long term investment, “which China has failed to provide.” Sri Lankans also recognize the enormous export potential that India represents. India has an
enormous population and a growing consumer class, and Sri Lankans are already taking advantage of that. The Chief Economist at the Ceylon Chamber of Commerce, Amushka Wijesinha, recent wrote, “We are at the doorstep of a dynamic market. The Indian middle class market alone is set to be 10 times our entire population. Imagine the opportunities there” (CNBC).

In recent years, the greatest challenge to Sri Lankan – Indian relations is the growth of Chinese investment and influence in the area. Many regional experts cite the concerns India has with Chinese developing close ties with Sri Lanka. Some interviewees referenced the Chinese control over parts of the new Colombo Port City. Others are concerned about the height of the new Lotus Tower that China has built in Colombo. There are some fears (that others dismiss) that China will use this tower to intercept Indian intelligence. These suspicions and concerns are due to the fact the China has increasingly grown close to Pakistan and played a more prominent role in the Indian Ocean. Indian leaders are wary of this development, and US officials, naturally allied with India, share their concerns. In the following section, I note that Chinese influence and investment in Sri Lanka grew rapidly during the Rajapaksa administration and put some strain in the relationship with India. And yet, Rajapaksa was has been careful to maintain good relations with Sri Lanka’s northern neighbor.

CHINA AND SRI LANKA

The impressive and expansive development of China investment in Sri Lanka clearly poses a challenge to the long-standing India/Sri Lanka dyad. China’s involvement in the region is not new, though Chinese investments in Sri Lanka have increased dramatically in recent years (Bhatia 2016). The history of modern era diplomatic relations between Sri Lanka and China begins in 1948, when Sri Lanka was one of the first states to recognize the Beijing government. Prime Minister S.W.R.D. Bandaranaike forged a trade relationship with China beginning in 1952, then opened official diplomatic relations in 1957. After her husband was assassinated in 1959, Sirimavo Bandaranaike (the world’s first female prime minister) visited China in 1964 and 1972 to consolidate bilateral relations.

Sirimavo Bandaranaike developed a personal relationship with Zhou En-Lai and they cooperated on diplomatic and economic initiatives. In 1962, for example, the Sino-Indian war erupted out of a dispute over territory in the Himalayas. Although India had sent teams across the border to probe the area, China was first to launch a full scale attack into Indian land. Many large and small powers condemned China’s actions, but Sri Lanka remained silent and thus lent tacit support to China’s incursion. In July 1963, Sri Lanka and China relations became even warmer with the successful negotiation of the Sino-Sri Lanka maritime agreement. This commercial agreement promoted the idea of Chinese and Sri Lankan vessels, operating from their respective ports, to engage in trade, cargo, and passenger services (Dhanapala).

Several high profile projects were constructed by China in Sri Lanka during the 1970s, including an international conference hall, the Supreme Court complex, and the Sri Lankan Cultural complex (Dhanapala). A few years later, the Chinese provided funds to develop the Norocholai coal plant. At the same time, Sri Lanka was continuing its trade and investment with India, and working together with India to build the Non-Aligned Movement. Rather than
choosing to ally itself with one or the other, Sri Lankan officials wisely worked with them both. Although India provided assistance to the LTTE on two key occasions during the 1980s, both China and India ultimately provided military aid to Sri Lanka to defeat the Tamil rebels.

On-going competition between China and India for influence in the Indian Ocean has naturally involved Sri Lanka. More than 80 percent of both Chinese and Indian energy, mostly oil from the Middle East, flows through the ocean, and passes through important “strategic chokepoints” including the Straits of Malacca and Hormuz. In their attempts to secure the “Maritime Silk Road” China has deepened its ties with states in the region, including Bangladesh, Myanmar, Pakistan, and Sri Lanka. For its part, India sees itself as the “natural preeminent regional power,” and Prime Minister Modi has “doubled-down on fostering stronger diplomatic, economic, and security ties with the maritime states” (Albert 2016). Many scholars describe China’s ambitions using the “string of pearls” metaphor, holding that China is taking on economic and investment projects with Indian Ocean states to secure ports and places for its military and naval facilities.

In recent years, China has plowed increasing large sums into Sri Lankan infrastructure projects, becoming the country's biggest foreign financier and enjoying significant political and economic influence. A researcher at Colombo’s Institute of Policy Studies notes, “In a sense you can say that this is Chinese diplomacy. China’s way to trying to engage with all of these countries is by providing infrastructure financing…” (Weerakoon in Shapard 2016). China's growing influence over recent years has also been a source of disquiet in regional rival India, which has long regarded the neighboring island as within its natural sphere of influence. In 2009 alone, Chinese economic investment in Sri Lanka increased five-fold.4 Although India was the largest source of foreign direct investment in Sri Lanka in 2010, China invested in large scale infrastructure projects in Sri Lanka in the same year.5

As Figure 1 below suggests, foreign investment from China has dwarfed Indian investments in the same period of time from 2010 to 2014 (Ceylon Chamber of Commerce data, cited in Batia 2016).

Figure 1:

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The Sri Lankan Institute for Policy Studies estimates that China has provided Sri Lanka with more than five billion dollars between 2006 and 2015 (Kelegama 2016). Major projects include the construction of major highways connecting Colombo city to the international airport in the north and another highway connecting Colombo to the city of Galle in the South. The Chinese have also built the Lotus Tower, a concert Hall, and a theater in Colombo. These projects are not viewed as strategic or controversial. However, other Chinese construction has worried the Indians and the US. The Chinese construction of two major ports in Sri Lanka provides them with access to important checkpoints in the Indian Ocean and advances China’s “string of pearls” strategy. The port at Hambantota at Sri Lanka’s southern tip cost $360 million and 85 percent of financing was done by the Chinese Export-Import Bank. The Hambantota port is dwarfed by the Colombo Port City project which was funded by a Chinese state-owned company, China Communications Construction. The $1.4 billion port city project was to be the single largest foreign investment in Sri Lanka, and includes a huge marina, plus malls, golf courses, and a Formula 1 track (Batia 2016). The port itself in the port city project would make Sri Lanka a crucial port in the Indian Ocean.

There have two primary objections to the port city project. First, the port is being constructed on reclaimed land, and there are significant concerns about the environmental impact of this massive land reclamation effort. Second, the port city project was negotiated such that the Chinese would retain 25 acres as their own territory on a “free hold” basis. This is of great concern to Indians, Americans, and some Sri Lankans, who are wary of Chinese influence. Most Sri Lankans I interviewed (from the public sector, private sector, and military) see the influx of Chinese investment as positive, citing long-term, low interest loans. Supporters of Sri Lanka’s relationship with China repeatedly emphasized that China is less likely to tie its loans to specific conditions. Many I spoke with abhor the conditions attached to International Monetary Fund (IMF) and Asian Development Bank (ADB) loans that seem to be the primary alternative. These

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6 A “freehold basis” in this case is meant to indicate that the Chinese would completely control activities within this section of the port, thus in effect, removing Sri Lankan sovereign control to a portion of the port (in exchange for the Chinese financing the construction).
multi-national financial institutions have, in the past, required Sri Lanka to reduce the number of government employees, cut price subsidies, and reduce government spending. China does not place these sorts of restrictions on its loans.

Americans I interviewed, however, were uniformly critical of Sri Lankan indebtedness to China that has grown during the Rajapaksa administration (2005-2015). American officials have grave concerns with “debt-driven economic growth” and the extent of Chinese control over the Sri Lankan ports. Although China doesn’t place IMF-style conditionality on its loans, they do insist upon the use of Chinese inputs, engineering, and, to varying extent, Chinese labor. In the case of the Colombo port development, American officials see the project as excessive. There are also concerns that Sri Lanka has and will harbor nuclear submarines in Sri Lankan ports. Like most of the investment agreements between Sri Lanka and China, the terms of the arrangements are not made public. The Executive Director of the Institute for Policy Studies noted that the Chinese loan conditions are never clear to most Sri Lankans. "There was no published record of the interest rates these loans were coming for. It was all a mystery," Kelegama says. “In September 2013, the then minister of ports and highways told parliament that the interest rate for the loan to build the Mattala airport had been increased from 1.3 per cent to 6.3 per cent.

When the Rajapaksa government was defeated in January 2015, a general halt occurred on new and existing Chinese construction. As a candidate, Sirisena, had warned against excessive borrowing from China. He said Sri Lanka would, “become a colony, and we would become slaves,” if Rajapaksa’s policies continued. “The land that the white man took over by means of military strength is now being obtained by foreigners by paying ransom to a handful of persons,” Sirisena wrote in his manifesto (quoted in Barry 2015). For its part, China was, “left high and dry when a friendly regime was swept away” (South China Post 2015). Several experts in Sri Lanka noted that the unexpected election of President Sirisena was a, “shock to the Chinese, who didn’t completely understand that this would undermine the Chinese investments in Sri Lanka.” The Sirisena government focused on reducing corruption and advocating democratic reforms, limited presidential power. But the real problem at this time was that reforms undermined the close relations between China and Sri Lanka. According to one expert, China became “very angry” when the new Sri Lankan leadership reversed itself on some of the agreements about Chinese investment. They “had trouble understanding how political change in Sri Lanka could erase prior agreements, especially about the port.”

Thus, in 2015, Chinese investors in Sri Lanka were concerned with investments in Sri Lanka and worried that China would not be able to realize its hopes for economic development in this link of its “string of pearls” in the Indian Ocean. Pethiyagoda (2015) writes, “Long described as the ‘pearl of the Indian Ocean, Sri Lanka was, up until the January election defeat of President Mahinda Rajapaksa, drifting out of India’s orbit and increasingly seen as part of China’s ‘string of pearls.’ But…Indian Prime Minister Narendra Modi’s government was able to snatch back this pearl from Beijing’s string.”

Thus, the Indian government, long concerned with China’s encircling “Silk Road” strategy for the Indian Ocean, enthusiastically embraced the 2015 election outcome. Prime Minister Modi placed a congratulatory call to Mahindra Sirisena even before the final election results were announced (Barry). South Asia analyst David Brewster noted that this shift could
provide an opening for additional US influence in Sri Lanka as well. For the Indian and US governments, the election of Sirisena in January 2015 was a welcome development. Sri Lankan promises of democratic reforms and reduced corruption increased US optimism.

US AND SRI LANKA

According to the U.S. Department of State:

*Relations between the United States and Sri Lanka are based on mutual interests and a shared commitment to the ideals of democratic governance. U.S. policy toward Sri Lanka is characterized by respect for its independence, sovereignty, and moderate nonaligned foreign policy; support for the country's unity, territorial integrity, and democratic institutions; and encouragement of its social and economic development.*

In recent decades, the Sri Lankan and US governments have cordially accepted each other’s trade and diplomats. In a 2009 report to the Senate Foreign Relations Committee, Sumar and Rubin note that, “Sri Lanka has been a friend and democratic partner of the United States since gaining independence in 1948…American interests in the region include …maintaining the free flow of trade in the Indian Ocean.” The report also notes that, “The United States has developed closer ties with India while Sri Lanka moved towards China.” Indeed, today the US embassy staff in Colombo view Sri Lankan policy as an extension of policy toward India, generally trying to align US views on Sri Lanka with their counterparts in India (Interviews). During the Jayewardene administration in the late 1970s, Sri Lanka condemned the Soviet Union’s incursion into Afghanistan and employed the services of Israel’s Mossad in its war against the LTTE extremists. The U.S. and Sri Lanka also entered into an agreement in 1983 for the Voice of America (VOA) to establish a powerful transmitting station in Sri Lanka.

A consistent point of departure in US-Sri Lankan relations has been allegations of human rights abuses by the Sinhalese in the protracted civil war. The US has called for the Sri Lankan government to reconcile its excessive use of force during the civil war (Kronstadt 2008). The impetus for some of these efforts must be attributed to the Tamil diaspora in Malaysia and other parts of Asia, Great Britain, Canada, and the US. Fleeing violence in Sri Lanka, the greatest number of Tamils have settled in Malaysia (more than 1 million), and groups of about 300,000 each have found their way to Canada, Great Britain, and the US. Tamil groups overseas have called attention to mistreatment and violence of the Tamils who remain in northern and eastern Sri Lanka. In the Tamils live primarily in California, Texas, New Jersey, and Ohio. There are 96 independent non-profit organizations with Sri Lankan connections in the US, and the great majority of them are Tamil-affiliated (US Census Bureau Fact Finder data).

The impact of the Tamil diaspora contributed to a pro-Tamil policy that was already deeply rooted in British colonial policy in Sri Lanka. The US has consistently provided greater foreign aid in the Tamil dominated areas, both during and after the civil war. The most recent USAID Country Development Strategy paper (CDCS 2011-2013) emphasizes the need for

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7 One infamous incident was the slaughter of 60-70 patients and staff at the Jaffa hospital by Sri Lankan forces in 1987. Many other incidents are details by Tamil diaspora groups. These are especially well-documented on the website Tamils Against Genocide (TAG) at [http://www.tamilsagainstgenocide.org/](http://www.tamilsagainstgenocide.org/)
additional assistance in the north and east in order to address economic inequalities and, “restore and rebuild in the North and East,” but interviews revealed that some Sri Lankans believe this is favoritism on the US part and that Jaffna has already been rebuilt. Still, since USAID has been relatively paltry until 2016, the US policy favoring the Tamil regions is not terribly contentious.

In spite of its seemingly pro-Tamil stance, the US signed an agreement with Sri Lanka in 2002 which has enabled the US to provide military technology, training, and intelligence to the government of Sri Lanka many years. Military leaders reported in interviews that they value training operations in the US and noted that the training missions they attended in the US were substantive and educational. Sources in Sri Lanka also spoke about US concerns with maintaining security at the US naval support facility at Diego Garcia in the central Indian Ocean. Although US embassy officials in Colombo denied this was an important consideration, some sources suggest that the US maintains a foothold in Sri Lanka and the Maldives as part of its effort to oversee Diego Garcia (Albert 2016).

The importance on any policy based on proximity to the Diego Garcia naval facility pales in comparison to the strong trade relationship between Sri Lanka and the US. Today the US is the largest single market for Sri Lanka’s exports, estimated at 22 percent of total exports. The predominate element of this trade is garments, and the US imports 42.4 percent of total garment exports. Thus, US foreign policy toward Sri Lanka has been characterized by multiple objectives. On the one hand, the State Department has criticized the Sri Lankan Tamil policy. On the other hand, the US garment industry has prospered from factories in Sri Lanka that employ cheap labor. In 2008 and 2009, US Trade Representatives held talks in Colombo to help improve market access and eliminate trade barriers for US companies.

The US has not invested heavily in Sri Lankan infrastructure development. The overall impact of US investments in Sri Lanka, in comparison to China, was described as “a drop in the bucket” (interviews), although the US government estimates foreign direct investment in Sri Lanka at $102 million in 2012 (latest available), up 8.5 percent from the previous year. This is in contrast to Chinese investments between 4 and 5 billion from 2010-2015 (Lawani). David Brewster noted that the US, had “really dealt themselves out of” any influence in Sri Lanka by taking a firm stance against Tamil human rights abuses, and by underestimating the power of Chinese investments in the region. By the end of the Rajapaksa administration, the growing number of Chinese projects in Sri Lanka had begun to alarm US officials. Shepherd notes, “While the West tried to exert political and economic pressure on Sri Lanka to force the country to atone for alleged humanitarian abuses, what they actually did was push the country into a closer alliance with China.”

Examining Sri Lanka’s trade relationship with the US, China, and India provides some insights into the relative importance of these countries to Sri Lanka’s economic development. As Figure 2 indicates, the amount of trade among all these states has grown enormously in the past twenty years, as Sri Lanka pursued a strategy of “hedging” – that is, accepting economic relations with all interested partners. We should not underestimate the volume of trade and its importance in tying together the fortunes of these governments. Indian and Chinese goods are

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8 Ibid, U.S. State Department, also cited in UN Comtrade data
9 Data from US Trade Representative, 2014.
omnipresent in Sri Lankan markets. While Sri Lanka imports more than it exports from India and China, Sri Lanka has a positive balance of trade with the US. The value of goods exported to the US (primarily garments) far exceeds its imports from the US.

Figure 2: Net Exports from Sri Lanka to India, China, and the US ($000)

In fact, there is an enormous gulf in US and Sri Lankan perceptions of Chinese investment in the island. In Colombo, many Sri Lankan politicians and business leaders spoke highly of Chinese investments in the country. As noted above, many Sri Lankans perceived their country’s growing economic ties to China as liberating Sri Lanka from its western dependency. By contrast, American officials spoke of Chinese support for “white elephant” projects in Sri Lanka. US officials argued that borrowing money from China was going to be more expensive and have more strings attached than many Sri Lankans realize. American officials argue that borrowing from the Asian Development Bank or International Monetary Fund is less costly and more likely to result in the economic reforms that the country needs. This was widely disputed by Sri Lankans who were united in their distaste for IMF policy and loans. Furthermore, Sri Lankans mostly view borrowing from China as liberating and worry less about unspecified Chinese interest rates. One military official argued, for example, “Sri Lanka has become an eager recipient of Chinese funds as China does not impose any kind of preconditions like the West” (Perera). There is a belief that China will continue to push the repayments “down the road.” One senior researcher at the Institute for Policy Studies said that he didn’t believe China would really force Sri Lanka to repay its debts.

Thus there is a gulf between how the Americans and how many Sri Lankans perceive the Chinese infrastructure projects and the IMF. In the later years of the Rajapaksa administration, American officials became increasingly frustrated by Sri Lanka’s close relationship with China.
and its failure to enact democratic reforms. As a result, in the years 2009 to 2014, USAID programs were dialed back and the USAID presence in Sri Lanka was dramatically reduced.\(^{10}\)

**USAID IN SRI LANKA**

Since Sri Lanka’s independence in 1948, US foreign assistance has totaled more than two billion dollars. In recent years, the U.S. Agency for International Development (USAID) has supported projects to improve housing, reduce unemployment, and modernize the judicial system. U.S. foreign assistance in low-income countries potentially fulfills a number of humanitarian, ideological, trade development, and security goals. In Sri Lanka, U.S. foreign aid has traditionally been viewed as a worthwhile investment in a burgeoning democratic state with abundant natural resources, relatively inexpensive labor, and a strategic location. Figure 3 below indicates how USAID funding to Sri Lanka has changed in recent years.\(^{11}\)

**Figure 3: USAID Budget for Sri Lanka in 2001-2015**

US frustration with the Sri Lankan administration in the Rajapaksa years resulted in important cuts in US assistance after 2008. Embassy and USAID officials described these cuts as based on many factors, including lack of humanitarian need as Sri Lankan median income grew. Clearly, though, USAID was phasing out from 2008 to 2015, or, as one official described it, “USAID was on a ‘glide path to close between 2015 and 2017.’” Another official cited a “precipitous decline” in USAID funding for Sri Lanka during this period. There was also the possibility, the official noted, that a small USAID budget in Sri Lanka would have been managed from USAID in India. In the five years prior to the election of President Sirisena in January 2015, Sri Lankan staff members at USAID were dramatically reduced through attrition, and neither US nor Sri Lankan staff were brought in to replace those who retired or resigned. A series of four interim directors of USAID were brought in to lead the mission during this time.

\(^{10}\) Sending very mixed messages, however, the US also began construction in 2014 of a very large and costly new embassy complex. This complex, when complete, will house the US Embassy, USAID, and the Marine Corps

Individual programs were also dialed back. The Sri Lanka Land O’Lakes Biz+VEGA program was cut 25 percent in 2013 and several of the development plans they had in place could not be funded. The Land O’Lakes office staff in Colombo was also cut and the office is now mostly vacant.

Figure 3 reveals a spike in USAID funding that occurred in 2005. In December 2004, a dramatic and deadly tsunami hit the southern and western shores of Sri Lanka, killing 30,000 people and destroying over 100,000 buildings. (This was the same tsunami that devastated portions of Indonesia, India, and Thailand as well.) USAID spiked in 2004 and 2005, as the US provided more than 135 million dollars in relief and reconstruction funds. Once that surge in disaster relief occurred, however, the US began to phase out its aid mission in the country.

This decision to reduce USAID presence and funding in Sri Lanka was reversed after Mahinda Sirisena was elected to the presidency in January 2015. His promises of political reform and his rejection of Chinese investment made him popular among US officials. The limits on presidential power that were passed in April 2015 were further evidence that Sirisena would be more pro-democracy and, presumably, more pro-US.

Thus, in a total “about-face,” USAID began in 2015 to reestablish itself in the Sri Lankan aid community. While Embassy officials were optimistic about relations, they did not anticipate the sudden inflow of USADI funds. They were “shocked” when Secretary of State Kerry visited Colombo in April 2015 and pledged $40 million dollars of new US funding in Sri Lanka. A State Department official in Washington confirmed what I was told in Colombo; this decision was made in Washington and passed down to the staff in Colombo. By mid-2016, the USAID was again being led by a Mission Director (after four interim directors). As the Embassy newsletter noted, “Signaling a surge in U.S. development assistance for Sri Lanka, the newly arrived Dr. Andrew Sisson officially assumed duties yesterday as the Mission Director…Dr. Sisson’s assignment as Mission Director corresponds to an increase of USAID staff at the Embassy to manage the rapid growth in the U.S. governments’ development assistance to Sri Lanka, which will total approximately 8.7 billion LKR ($60 million) for fiscal years 2015-2016” (US Embassy).

This dramatic policy about-face reveals several important facets of USAID funding in Sri Lanka. First and foremost, the US demonstrates “black and white thinking” with this decision. With one election the US view of Sri Lanka shifts dramatically and USAID has decided to reinvest in a country it was ready to write off. This indicates the lack of depth in US aid policy analysis, seeing Sri Lanka and its need for assistance as completely the result of one shift in government. Clearly, USAID funding levels are not a reflection of humanitarian criteria in this case. Second, the USAID rush to refund projects is clearly disruptive to the administration of programs in the country. Several projects were nearly closed down were suddenly being told to plan to spend tens of millions of dollars quickly. In 2016, aid workers were scrambling to rehire employees and identify viable project options in this chaotic climate.

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The view of Sri Lanka as poorly led in one month and full of promise the next month also demonstrates that US decision makers do not recognize the complexity of policy-making in this setting. A country with ties to India, China, the US, the UK, and others and cannot suddenly and dramatically change the course of its politics, diplomacy, or investments. The fact that Sirisena was himself the Minister of Health in the Rajapaksa cabinet until 2014 means that there are overlapping interests, in spite of Sirisena’s rhetoric. It is true that the newly elected President Sirisena did run on a campaign that promised democratic reform and reduced indebtedness to China. When he came into office, Sirisena did halt construction on most Chinese funded projects, including the mammoth Port City project. However, it was naïve for the US to assume that Sri Lanka’s connections to Chinese investors would be permanently severed or that the Chinese would not want to return realize profits from the sunk costs of their infrastructure projects. Indeed, changes that did occur in 2015 were short-lived. As we will see in the next section, already in 2016, relations between China and Sri Lanka were on the mend.

BACK TO THE FUTURE IN 2016

In early 2015, the Indians and Americans were celebrating the change in government in Sri Lanka and President Sirisena’s first 100 days of democratic reforms. Chinese investments in the Port City, Lotus Tower, and elsewhere were halted and the 19th amendment was passed, reducing presidential power. Sirisena’s first international trip was to India, and Prime Minister Modi reciprocated within a month. Modi promised that India would develop an oil tank “farm” in Sri Lanka, and offered $318 million for railroad improvements (Bhatia). In addition, because out-going President Rajapaksa was associated with the brutal attacks that finally ended the LTTE war, there was hope that the new government would start to address some of the allegations of human rights abuses against the Tamils as the war drew to a close. In 2015, the Tamil diaspora in Canada, Great Britain, and the US reinvigorated their campaigns for redress of what they refer to as “war crimes” and “the genocide” (Tamil Guardian in Holt 2011).

The near giddiness of the US Embassy staff was still apparent in February 2016 during my visit. Much was made of the halted construction on the Port City project and the reduction in Chinese construction on the Lotus Tower. After Secretary of State Kerry had visited in April 2015 and announced $40 million dollars in new funding for Sri Lanka, USAID staff were excited to begin rebuilding their presence and to reinstating new positions that had been eliminated. The fourth USAID Interim Director in a row believed he would be replaced by a longer term Mission Director.

In interviews, Sri Lankans with were less sanguine about the potential for dramatic change under Sirisena. For one thing, there was significant frustration that some of the projects in the city had been halted as Chinese investments were cut off. Highways were not being built, the Port City was incomplete, and the Lotus Tower was a statue to incomplete projects. While China skeptics cheered, the majority of Sri Lankans were frustrated that economic progress seemed to have halted. Road construction was far behind schedule and massive traffic jams were the result. Dozens of Chinese cranes remained in position in Colombo, but construction was not moving forward. Analysts I met in the government, academia, and military, all suggested that the new government would need to repair relations with China. They proved correct. By the
beginning of 2016, a flurry of diplomatic and investment initiatives have taken place and the Sirisena government began to re-establish its many financial ties with Beijing.

Former President Rajapaksa himself was dispatched to Beijing in late 2015 and 2016, acting as an envoy to help reestablish Chinese investments in Sri Lanka. The current Prime Minister, Ranil Wickremesinghe, declaring that, “Sri Lanka is neither pro-India nor pro-China,” (Ramakrishan 2016) followed up with a visit to China in April 2016 as well. Following these visits the government announced an equity swap on $8 billion worth of Chinese loans to Sri Lanka. The Port City project was also renegotiated, and in mid-2016, the Sirisena administration announced that the Port City financing had been arranged and that construction was once again underway. One key change was that the 25 acre “freehold” area was no longer included in the negotiations. Sri Lanka began taking the necessary steps to re-establish its ties with Beijing (Ramakrishnan). Once relations had improved with the West, Sri Lanka shifted its focus back toward China and construction recommenced on phase two of the Hambantota deep sea port, several highways, and the Port City (Shaphard 2016).

HEDGING RELATIONS WITH INDIA AND CHINA

According to traditional international relations theory (Walt 1987), states seek security through bandwagoning or balancing alliances. When faced with a great power, a state with adequate potential will attempt to build its power and thereby balance a rising power. A small state normally lacks the ability to balance a great power and thus, according to Walt, is more likely to form a bandwagoning alliance. That is, they will “jump on the bandwagon” to avoid a threat from the great power.

Given its size, traditional alliance theory suggests that a small state such as Sri Lanka will bandwagon with a great power. Without the resources to balance large powers, Sri Lanka should “jump on the bandwagon.” Contrary to expectations, it seems that Sri Lanka has chosen an alternative strategy. In this case study, there is significant evidence of Sri Lankan “hedging” in its relations with China, India, and the United States. Perera (2013) writes, “Though experts are unable to rule out that Sri Lanka might someday bandwagon with China, at this point, Colombo appears to be seeking assistance from any country willing to provide the same.”

Indeed, from the earliest days of Sri Lankan independence, the country attempted to maintain good relations with both Great Britain and India. As time moved forward, Sri Lanka was able to attract military assistance from China, India and the US in its struggle against the Tamil Tigers. In recent years, Sri Lanka has developed healthy, growing trade relationships with the US, India, and China, and it has been able to attract significant financial investments from those countries, in addition to Japan and the European Union. Rather than choosing one alliance as its focus, Sri Lanka has “hedged” its bets and developed relationships with a number of important allies. This hedging is a smart strategy for a country in the middle of the Indian Ocean that has geostrategic value but is also extremely vulnerable. Rather than merely bandwagoning, for small states such as Sri Lanka, the most appealing strategy is cultivate good relations with all states. As Nishan de Mel, Executive Director at Verite Research, said, “"The challenge is to find a balance between these two large countries and not take to one bloc. The pendulum is swinging but should end up in the middle” (Bhatia). Major General Perera, Sri Lankan Security Forces
Commander has stated that, “Sri Lanka’s foreign policy is based on Buddhism and compassion. Sri Lanka’s foreign policy is ‘Friendship towards all and enmity towards none’” (Perera).

In the Rajapaksa years (2005-2014), Sri Lanka was able to enlist the support of India in the civil war, while also countervailing Indian power in Sri Lanka by developing closer ties with both Pakistan and China (Behuria and Sultana 2013). In 2015, President Sirisena forged a nuclear energy pact with India that is intended to counter Chinese influence in the region. In a joint briefing with Prime Minister Modi in New Delhi, the leaders noted that India would provide knowledge and expertise to Sri Lanka as it seeks to build a nuclear plant. “The bilateral agreement on civil nuclear cooperation is another demonstration of our mutual trust…It opens new avenues for cooperation,” Modi told reporters. Commentators such as Bhatia maintain that, “Sri Lanka has cleverly managed its courtship with both India and China.” Another Colombo-based analyst agrees, “At the end of the day, we don’t have a U.S. base on our shores and neither are we an annexure of India.” The small island state has done well to maintain its sovereignty while pursuing diplomatic and trade relations to its advantage.

DISCUSSION

In support of the study of small powers, Robert Keohane (1969:310) is famous for arguing that, “If Lilliputians can tie up Gulliver, or make him do their fighting for them, they must be studied as carefully as the giant.” In spite of Keohane’s wise counsel, the bulk of international relations literature has studied large powers and their influence on the state system. This study examines the policy-making of a small state and reveals that Sri Lanka is able to exercise its influence over relations with its much larger neighbors. It would be inaccurate to describe Sri Lankan state behavior as able to consistently impact such “Gullivers” as the US, India, or China. But the Colombo government has skillfully moved among much larger powers to its advantage, and the net result has been military and economic assistance, improved harbors and roads, and long-term, low-interest loans. Asymmetries in the relationship mean that Sri Lanka can achieve the gains from alliances without India and China experiencing any meaningful loss of status or power. In the case of the US, a single election in Sri Lanka caused the large power to fully reconsider its aid policy. The US acted naively and abruptly on limited information, making sweeping financial judgements about Sri Lanka based on a candidate’s anti-China rhetoric and the outcome of one election.13

While not broadly conclusive by any means, this case does force us to reconsider the conventional wisdom regarding the relevance of small states and their ability to impact alliances to their advantage. Hedging appears to be a strategy that small states can use to improve relations with rising powers while remaining steady allies of traditional powers. This case helps identify a serious flaw in the conventional wisdom that small states must bandwagon with larger states to maintain their sovereignty and territorial integrity.

Clearly, we need additional case studies of the interaction among small and large states. Theory development demands deep analysis of many diverse cases. As we choose cases, though,

13 It is noteworthy that the 2009 document entitled, “Sri Lanka: Recharting U.S. Strategy after the War,” was written after a one-week trip to Sri Lanka undertaken by two staff members of the Senate Foreign Relations Committee.
it is important not to focus on large states alone and ignore the large number of countries that play a part in the international system. If we neglect small states we fail to understand the majority of cases and we limit our understanding of alliances.
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