

India Loses the East Container Terminal: How Domestic Politics Rocked the Ship

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Summary

Sri Lanka recently decided to scrap a 2019 agreement with India and Japan to operate the East Container Terminal. While the China factor and the Sri Lankan ethnic issue have negatively impacted bilateral relations, left leaning labour unions and smaller political parties have also played their part in the cabinet's recent decision.

The Central Bank of Sri Lanka last week settled a US\$400-million (S\$530.78 million) currency swap facility from the Reserve Bank of India. It has also said that in the first instance, it would be seeking fresh lines of credit from China. The explanation was that further extension of the facility would entail Sri Lanka acceding to the International Monetary Fund's terms for macro-management, which at this stage it was reluctant to do. In addition, a five-day rally was held last week in Jaffna by Tamil Muslims and ethnic Tamils to assert minority rights in which many civil service organisations and political leaders joined. Over the last week, there has been a series of decisions by the Sri Lankan government that have strained ties with India.

Sri Lanka decided to scrap a 2019 agreement with India and Japan to operate the East Container Terminal (ECT). The predecessor government in Colombo entered into a trilateral Memorandum of Cooperation (MoC) with India and Japan, to develop the ECT, which had equal ocean draught/depth to berth large ocean liners at the wharfs. However, that government fell before the MoC could lead to a full-fledged agreement. There has also been a dispute over the participation of an Indian firm in the ECT. Successive governments in Sri Lanka have baulked at upgrading the two-decade old free trade agreement into a differently-titled 'Comprehensive Economic Partnership Agreement' or 'Economic and Technology Co-operation Agreement'.

During a cabinet meeting headed by Prime Minister Mahinda Rajapaksa on 1 February 2021, the Sri Lankan government decided that the ECT would be operated as a wholly-owned container facility of the Sri Lankan Ports Authority (SLPA), and not, as earlier planned, a joint venture with the Indian and Japanese consortium, with considerable assistance from Japan on very favourable terms. Almost 70 per cent of the transshipment business in the ECT is linked to India and the cutting out of the India-Japan consortium took the two countries by surprise.

It is clear that bilateral relations have been negatively impacted due to these developments and, yet, it is not easy to pinpoint the reasons for this sudden deterioration.

The China factor, the Sri Lankan ethnic issue and the attendant United Nations Human Rights Council resolution too have negatively impacted bilateral relations but they have

different connotations. The fishermen's issue and economic ties, in contrast, are more direct and have become as complicated.

Trouble started for the ECT when the current Gotabaya Rajapaksa regime took over after the November 2019 presidential polls. Ahead of the parliamentary elections in August 2020, the traditionally strong, left-leaning labour unions in the government-administered SLPA protested against the ECT. The previous regime had ignored such protests while signing the MoC. The then-government of Prime Minister Ranil Wickremesinghe had also ignored the violent trade union protests against the debt-equity swap deal over the southern Hambantota Port, where the Chinese creditor got a 99-year-long lease, which has been continuing smoothly for a few years now. Many minor parties in the Rajapaksa government are left leaning. Wimal Weerawansa, founder of the breakaway National Freedom Front, who is currently the Minister of Industries, has often taken competing positions with the Janatha Vimukthi Peramuna, which still holds on to its anti-India ideology. The ECT is one such issue. The cadres of the Rajapaksa's Sri Lanka Podujana Peramuna count on the support of several smaller parties, both to the left and the right.

It has become difficult to brush the objections of the trade unions on the Indian agreement under the carpet. Surprisingly, even the Ceylon Workers Congress of upcountry Estate Labour, led by Senthil Thondaman, has also strongly supported the anti-ECT camp. Then, there is the 'centre-right nationalist' Pivithuru Hela Urumaya (PHU), the breakaway group of the parent Jathika Hela Urumaya (JHU), which is in the opposition Samagi Jana Balawegaya's company. The PHU, led by Minister Udaya Gammanpila, has to cash in on the traditional not-so-friendly JHU policy towards India, and also face off the 'left nationalists', both within and outside the government to retain its ever-dwindling voter base.

It is clear that the move to walk away from the ECT agreement has its origins in the disquiet of the parties in the ruling coalition. It could also be inferred that President Gotabaya Rajapaksa and his brother, one-time predecessor and current Prime Minister, Mahinda Rajapaksa, are not necessarily of a single mind in adopting this attitude. When India's Foreign Minister S Jaishankar visited Sri Lanka in January 2021, both the president and prime minister affirmed the nation's commitment to the 2019 agreements. However, while the prime minister announced the cabinet decision to scrap this agreement, the president has not commented on the same.

Japan and India have since taken up the ECT issue at the highest levels in the Sri Lankan government. The alternate to develop the West Container Terminal may not be as attractive as it is a longer time horizon project with greater costs and comes with the attendant risk that the Colombo government may yet again walk away from the commitment. The cabinet decision has its origins in the disquiet of the parties in the ruling coalition. What is not clear is whether both the Rajapaksa brothers are in sync with the decisions.

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