



EUROPE INDIA CHAMBER OF COMMERCE

69, Boulevard Louis Mettewie (bte.18)

1080 Brussels (Belgium)

Tel & Fax: 0032 2 469 2677, 02-840 2800 GSM: 0472 207 338

E-mail: info@europeindia.eu; sunil.prasad@telenet.be Website: www.europeindia.eu

Chairman: Ravi K Mehrotra, CBE Secretary General: Sunil Prasad

EICC-2022

Brussels, 18 July 2022

Ms. Ursula von der Leyen
President
European Commission
Brussels

Dear Commission President Ms. von der Leyen,

Re: **Crisis in Sri Lanka and European Union's moment to step up**

As you are aware, Sri Lanka is in the midst of its worst financial crisis since independence. The country has been facing an extraordinary turmoil over the past several months. The economy has collapsed, country has gone bankrupt, and it is chaotic everywhere. Colombo's crisis has been in the making for more than a decade, largely due to the country's excessive dependence on imports and borrowings for a raft of massive, economically unviable infrastructure projects. Though successive Sri Lankan governments have their share of blame for the current situation, the real culprit is the debt trap, a necessary corollary of the Belt & Road Initiative (BRI) of Chinese President Xi Jinping.

Though Sri Lanka is the most glaring example of how the BRI debt trap can ruin a country and bring to its knees in all senses, it is not the only one. There are several other countries in Asia and Africa who are on the brink of collapse as they are also reeling under the impact of terrible policies and glittering projects that may look good on paper but have become a millstone around their necks. China's willingness to channel large amounts of money into countries ill-equipped to navigate huge 'debt traps' is for the purposes of obtaining economic and political leverage. China has used these investments to silence and buy loyalty of BRI countries and therefore it is not surprising that many BRI recipient states have refrained from publicly criticising China's policy of collective punishment and mass arbitrary detention of millions of Uighurs Muslims in Xinjiang.

Most notably examples of misplaced priorities and investments on projects financed by China under the BRI include China-Pakistan Economic Corridor in Pakistan, the USD 4.5 billion Standard Gauge Railway in Kenya which has led to calls by Kenyan lawmakers asking to renegotiate the loan and cut it by half. Similarly, there are numerous other projects in Central and Western African countries as well as in Cambodia and Laos in South-East Asia that have become economic duds.

These economic tragedies are direct results of lack of transparency and secrecy, the business model that China has strictly pursued in its investment programme. This is the way Chinese economy actors also behave within the party-state system. However, in parallel with

the rapid implementation of China's Belt and Road Initiative (BRI) over the last nine years, "China-skepticism" has taken root in almost all countries participating in the BRI investments. Due to lack of accountability within the terms of investment, the BRI has encouraged high level corruption in many governments. We believe that EU cannot afford to miss the growing discontent against Chinese business model and take necessary steps to create value-based investment and business.

Wake up call for the EU

The collapse of the Sri Lankan economy is a wake-up call for the West, and to the European Union with many countries in Africa and Asia battling with similar woes and being sucked into the vortex of unmanageable debt. The economic and political chaos that has dangerously gripped Sri Lanka will have a big impact on the peace and stability in South Asia.

Sri Lanka is now in the throes of a vicious economic meltdown. Those outside the debt-trap need to appreciate that the recovery from the economic crisis is not something that can be done overnight. However, some countries, especially the European Union, can help the country by providing urgent and special economic package. But at the same time, the commitment made by the Sri Lankan govt during the EU GSP+ monitoring mission in September 2021 to review Sri Lanka's compliance with 27 International Conventions, must be monitored.

As Sri Lanka's exports remain concentrated in textiles and agricultural products such as tea and rubber, which remain the country's main source of foreign exchange, we are of the view that enhanced trade, meanwhile, remains a vital component part of any hope of rescuing Sri Lanka from the crisis. It is true that getting through the next few months will be very tough but the international community including the EU, need to reach out to Sri Lanka and help the country to recover from the crisis. If Sri Lanka is not assisted in this situation and if the chaos goes out of hand, then what happens to the next country who too will go on default because of debt-trap? You will agree that while Sri Lanka's struggle is extreme, it reflects conditions across dozens of countries from South Pacific islands through some of the poorest in Asia and Africa that have signed onto Chinese Belt and Road Initiative.

“Debt Trap” or “Death Trap”

For years, China has tried to create a global image of being a dependable partner of developing countries. Many countries have tested that image by consistently and publicly asking for bail-out funding but in a time of need, China has ditched them and has demanded a heavy price for help. As Chinese loans assume the form of ‘cash for resources’ in return for financing and building the infrastructure need, it demands favourable access to their natural assets, from mineral resources to energy and ports. This is what is happening in Balochistan, a disturbed province in Pakistan where China has demanded that Pakistan gives full control of Baloch mineral assets including right to setting up Chinese military outposts under the BRI. Baloch nationalist insurgents have been attacking CPEC projects and personnel because they consider China an imperialist power that, along with the Pakistan government, is trying to snatch Balochistan's natural resources.

In view of the above, it is not out of context to state that EU should press Pakistan to scrap the China-Pakistan Economic Corridor (CPEC) to arrest Pakistan's economic slide further.

The pitfalls of Chinese domination of economic policies in Pakistan is now very much visible. With Pakistan's economy in fast decline, it is likely to meet the same fate as Sri Lanka's economy. The EU should therefore convey to Pakistan that one of the conditions of receiving EU's GSP plus trade privilege depends upon how the country responds to China's dominance. The economic meltdown of Pakistan should make such a decision imperative and urgent because the country is teetering on the edge of a tailspin.

It is not a secret anymore that BRI is an essential tool for China's quest to sell more goods and obtain contracts for its construction companies — in addition to challenging what it refers to as 'West hegemony'. China's 'debt-trap diplomacy' is meant to bring economically weak countries to their knees, with 'sugar-coated' pill without allowing the countries right to ask the level of "bitter content" in the pill. To meet its foreign policy objectives, China has robbed national identities of many BRI debt trap countries and also threatens to change their "DNA".

Infrastructure without business sense

While China currently has been involved in more than 50 projects in Sri Lanka, their nature and execution are alarming. These are Hambantota and Colombo Port City, both of which have been given for 99 years of lease to China. How nonsensical and economically unsustainable projects these have been seen from the fact that till today not a single commercial aircraft has landed at the new airport and not a single ship has docked in the port?

It is a challenging time for Sri Lanka struggling to survive as a nation. After the global outbreak of the epidemic, and now the war in Ukraine, Sri Lanka's vibrant tourism sector, a cornerstone of the economy, has been devastated. At the same time, remittance from Sri Lankan workers overseas, which accounts for 26 percent of the country's foreign exchange, has experienced a sharp drop. These two factors have also greatly contributed to the fluidity of the country's foreign exchange reserve.

Collapse of Sri Lanka economy against the backdrop of China's Belt & Road Debt Trap (BRDT) should be a matter of concern to the EU as many countries in other parts of the world will face the same fate. Therefore, as a matter of urgency, the EU should take immediate steps to implement the Global Gateway Project on war footing basis. It should be noted that many African countries have geopolitically overplayed their hands and have fallen into China's BRDT. Rule-based cooperation focused on a clear set of priorities represents an attractive alternative to the BRI in several partner countries, starting with Africa. As some countries already have a negative perception of the BRI, this could have a leverage effect on the Global Gateway project. Please allow us to say that European Union for years sadly stood as a silent spectator on the nature of China's engagement in Africa and it started acting only when it found that China was economically colonising and exploiting poor countries to meet its foreign policy objectives.

India as concerned neighbour

In this context, it is important to state that India has wisely thrown in its lot with the people of Sri Lanka, saying that it stands by them "as they seek to realise their aspirations for prosperity and progress through democratic means and values, established institutions and constitutional framework". India has been playing the role of a concerned neighbour ever since

the crisis in Sri Lanka reached a boiling point. With its mantra of 'Neighbourhood First' and its vital strategic stakes in the island nation, India cranked up assistance to Sri Lanka. Until now, New Delhi has provided over USD 3.8 billion worth of support to the beleaguered nation. Ironically, China, which has been relentlessly increasing its footprints in the island nation, has been barely there for Sri Lanka in its hour of need.

Madam President, as Sri Lanka descends into further chaos, economic and political, it is a matter of grave concern not only for India but also to the West and EU, because of the island nation's geo-strategic location and close business proximity with China. In the interest of EU's Indo-Pacific Strategy, EU must prevent Sri Lanka becoming South Asia's Lebanon. The EU must seize the opportunity to play a larger role in the spirit of its Indo-Pacific Strategy. EU's timely and appropriate action on Sri Lanka will determine the future of many vulnerable countries who are in the Chinese debt trap.

If democracy is about people's power, Sri Lanka is today not just a cautionary tale but a beacon of hope for many countries who are in the similar state. However, International community and the EU would not like many state capitals becoming a "Colombo".

We hope this letter will receive your urgent attention.

With kind regards,

Yours sincerely,



Secretary General

Cc. Mr. Josep Borrell, EU High Representative for Foreign Affairs and Security Policy and Vice-President

Mr. Valdis Dombrovskis, Executive Vice President and EU Commissioner for Trade