

CHAPTER IV

CONCLUSION

The tight-knit relationship between Sri Lanka and China could be seen that it goes decades back with their trades due to their close geographical proximity. The closeness has brought the two countries to come together in a cooperative concord in Sri Lanka's Hambantota Port Project. This project was first commenced by Sri Lanka in hopes to bring development to the country, especially on enhancing the country's infrastructure aspect. The project surely needed a numerous amount of funds in order to proceed with the construction which is why Sri Lanka was looking to take out loans from other institutions and or countries. China's availability on approving and granting the loan investment funds needed for Hambantota Port, makes the country its main investor and lender.

This research aims to examine the Hambantota Port Project based on the Responsible Sovereign Lending and Borrowing Concept, which is divided into four aspects, namely realistic assessment, honesty, inheritance of the next generation, and pre-disbursement diligence. Based on the background explanation, problem identification, theoretical framework, and analysis provided, it can be concluded on the research question that the Hambantota Port Project, which was carried out on the basis of Sri Lanka and China cooperation, that Sri Lanka was not in a feasible state (in many different aspects) to take the loans out. Even so, according to the case study analysis that has been carried out based on the Responsible Sovereign Lending and Borrowing Concept, it can be concluded that the Hambantota Port Project's

loans, failed to be seen as a responsible lending hence also Sri Lanka's unprepared and unfeasible condition makes it all worse. In that sense, Sri Lanka failed to meet the four criteria that is explained in the Responsible Sovereign Lending and Borrowing Concept, namely realistic assessment, honesty, inheritance of the next generation, and pre-disbursement diligence. As has been discussed in the concept, these four criterias are only just a small part of the many criteria and aspects that a loan or borrowing procedure needs to fulfill in order to be considered as a responsible lending and borrowing. Sri Lanka failed to fulfill the criterias to be considered as a responsible borrower.

The criteria aspect of the realistic assessment from the Responsible Sovereign Lending and Borrowing Concept has failed to be achieved. It has failed due to the lack of assessment from both sides of the parties but especially from Sri Lanka's side. When assessed closer and more properly, the country's economy was not feasible in taking a huge sum of loans especially for the longevity of the loans repayments with a high 6.3% of interest. It also lacks assessment and research regarding the stakeholder's previous behavior with its lending activities which may be the cause of Sri Lanka's default that took place in 2017 with the signing over the port for 99 years under the control of the Chinese government. Though, the most serious lack of realistic assessment lies within the country's feasibility in the loan repayments, seen through its debt-to-GDP ratio over the years and especially prior to the year they finally signed the loan agreement with the Chinese owned company.

On the aspect of honesty or also seen as transparency, Sri Lanka also faces a significant lack of the country's transparency, that can be seen through the corrupted

government and its severe acts of bribery and violations on a lot of aspects. During the presidency of Mahinda Rajapaksa, a lot of the government officials were corrupted and posed acts of bribery here and there, not to mention that most of the officials were his family members. The people expected him to be more firm with his decisions and response on handling these but instead it was found that he also abused his power to do otherwise and turn his face away regarding this matter. It was found that almost all of the projects that were done during his reign were Chinese funded hence the speculations regarding corruption here and there sparked. Many of the Sri Lankans also believed that the main reason as to how the Hambantota Port fell into Chinese hands was because of corruption that was also caused by the lack of transparency from the government to the people of Sri Lanka itself. This is another reason as to why Sri Lanka wasn't in a position to take out the loans, because they should have fulfilled this aspect if they were in a good condition on borrowing.

Another aspect that the country failed to fulfill is how the loans that they took from China to fund the port leaves a huge amount of debt towards the next generation of government. It could be said that the debts from this loan was passed on to future generations causing an economic meltdown which was not supposed to be the case. This could be further seen through the country's debt-to-GDP and GDP ratio in 2016 prior to the year of their default in 2017, up to the years after the default how the country's economy just keeps decreasing and depreciating in its currency. The government was trying to keep the country afloat from the loans that the previous government left them. Hence caused them to borrow from national

banks to cover the holes in their economy as well as external borrowings. They are covering the debt with another debt which is never a good sign especially when it comes to a country. Here on, we can conclude that the loans that were taken by Sri Lanka left a huge debt burden towards the next future generations of the country which eventually spiraled down into the country's economy. Through the loan debt burden that was left by the previous government to the next, it is clear that the country was again, not in a position on taking that many loans hence it should have been thinking for the long term of the repayments before signing the loan agreement.

The fourth and last criteria aspect that has failed to be fulfilled is the pre-disbursement diligence where it focuses on the impacts towards the environment and indigenous people through the project loans. When a country builds a port, it obviously has impacts towards the environment surrounding the port's construction. In this case, the harm that was done through the port's construction was the hazardous chemicals that the ships brought, the pollution that caused air quality to decrease, and also the habitats that the animals lost because the land was where the port was built. The elephants lost their natural habitat, the lagoon where many animals reside and birds lived were gone due to the scraping of the sand. The villagers from a village nearby the port construction site reported that there have been massive problems between elephants and people that causes the death of both sides. People of Sri Lanka were also losing their home lands due to the turn over of the lands by the government, they were evicted forcefully and were promised a new land but unclear of the progress. There was no longer clean water in the areas surrounding it due to the polluted water from the ships docking and activities in the

Hambantota Port. In close, lenders usually have the bigger responsibility on the usage of a loan in infrastructure projects especially towards environments and indigenous people. Hence it posed a bigger problem for Sri Lanka with the question on why the country still takes the loans instead when it gives them a bigger loss in these aspects. The country was supposed to be in a more prepared condition regarding this matter before agreeing to take the loans that destroyed so many natural resources and ecosystems. It should have done a more thorough research and be ready to tackle all of the consequences that the loans may bring instead of proceeding with lack of caution.

From all of the four aspects that the Responsible Sovereign Lending and Borrowing Concept proposed as an indicator whether lender or borrower parties are responsible with their action, it can be concluded that Sri Lanka was not qualified to be considered as a responsible borrower, for they did not achieve the aspects of the four with which, realistic assessments, honesty, inheritance of the next generation, and pre-disbursement diligence. The country should have passed all of these four out of many aspects first the next time they plan on taking loans and borrowing from any other institution, organizations, and mostly countries. From this research, the author can conclude that in order to borrow, first one has to have the ability and resources to repay it.

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