

# China-Sri Lanka Economic Relations: Opportunities and Challenges for Sri Lanka

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## Abstract

This study intends to analyse the growing economic relations between China and Sri Lanka focusing on opportunities and challenges for Sri Lanka. The study used qualitative and quantitative research methods for the subsequent analysis. Descriptive statistical techniques were used to analyse the quantitative data, and critical discourse analysis was used to analyse the qualitative data. The data was presented using texts, tables and figures. The study found that Sri Lanka has gained many opportunities due to close economic relations with China. Sri Lanka is an important location in China's Maritime Silk Road initiative and China's string of pearls concept provided lots of economic benefits for Sri Lanka. China become a significant export market, source of foreign direct investment, source of low-cost imports for Sri Lanka, vast infrastructure development of the country and source of the tourism industry in Sri Lanka. China also became a key source of military and diplomatic support for Sri Lanka when needed. Sri Lanka's economic relations with China present both opportunities as well as challenges. China's involvement in Sri Lanka has become a possible challenge for Sri Lanka to tackle with big brother India. As well, negative trade balance, huge debts and low investment returns also can be considered as the major challenging areas in which Sri Lanka faced economic relations with China.

**Keywords:** Big Brother, China-Sri Lanka Economic Relations, Debts, Foreign Direct Investment, Negative Trade Balance

## INTRODUCTION

Originally, China's Asia foreign policy mainly targeted South-east and Northeast Asia. However, in recent years, it has been changed, and China's foreign policy has given important consideration to South Asia, and the Indian Ocean region for resources, search for a strategic location and capturing the markets (Kumar, 2017: 1111; Wheeler, 2012: 3). In this context, Sri Lanka too becomes an interesting country for China. Compare with China, Sri Lanka is a small country in terms of land (65,610 km<sup>2</sup>), population (21.67 Million in 2017), and economic capacity, and it has ranked as a lower middle-income country, with a GDP of 304.166 US\$ billion in 2020 (International Monetary Fund, 2020). Irrespective of the sizes of their land, population, and economic capacity, China has increased its close economic relations with Sri Lanka over the years, providing a model of close economic relations between large and small countries (Deyshappriya, 2016: 5). The following factors have been impacted to China's interest to develop close economic relations with Sri Lanka;

- Sri Lanka is strategically well located in the center of a modern international shipping passageway between the oil-rich Middle East, Southeast Asia and Africa, which is considered the world's energy and resource center (Kumar, 2017: 1111). Sri

Lanka also is considered one of the pearls of China's String of Pearls concept, which has gained traction in recent years because of China's increasing strategic interests over countries in the Indian Ocean Region (see Figure 1). Thus, China-Sri Lanka's close relations provide China with an alternative option of opening direct access to the international shipping passageways of the Indian Ocean, which will increase strategic cooperation with the region and save trade for China (Deyshappriya, 2016: 13).

- Sri Lanka also is strategically well located in one of the main points in China's recently initiated Maritime Silk Road (MSR)<sup>2</sup> with three international shipping ports such as Colombo port, *Tricomalee* port and *Hambanthota* international port (see Figure 2). Under this initiative, China aims to reclaim the past glossy of the ancient Silk Road, while increasing connectivity between China, Asia, Europe and Africa. Thus, China wants to use Sri Lanka as an economic and trade hub for its exports and imports under the MSR initiative (Kumar, 2017: 1111-1112);

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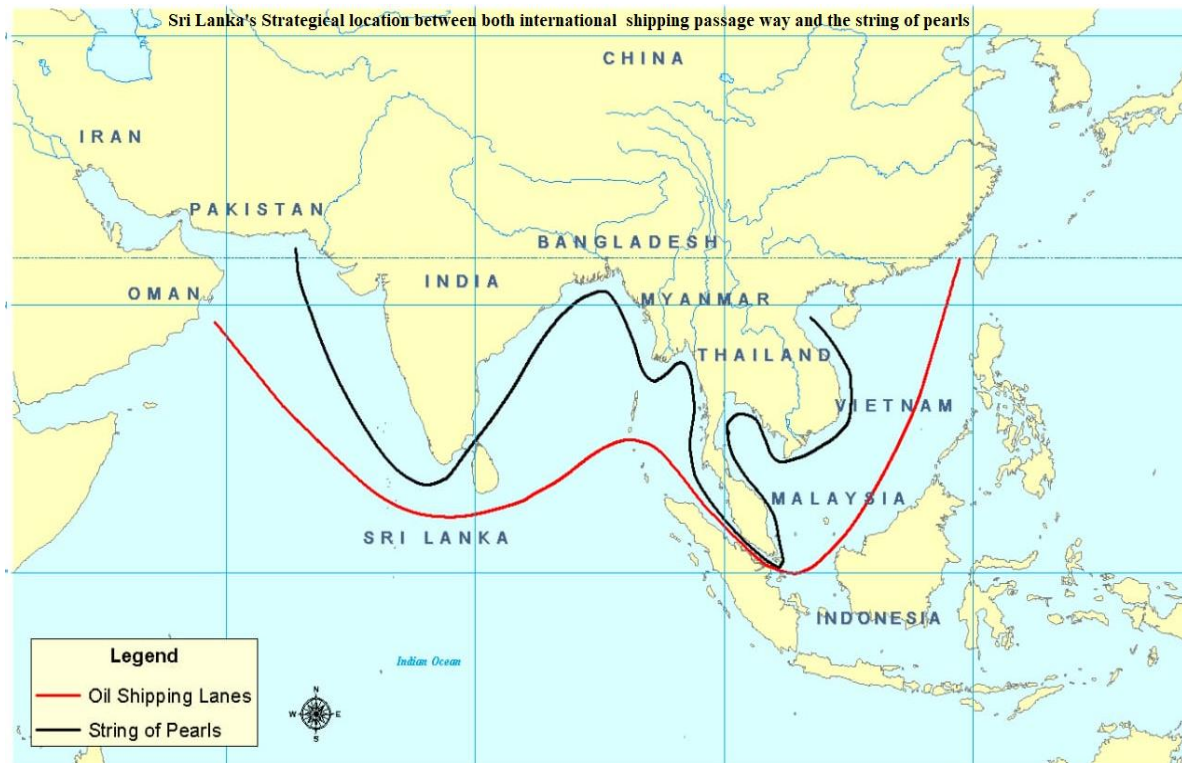
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<sup>2</sup> Sri Lanka was the first country to support China's Belt Road Initiative (BRI).

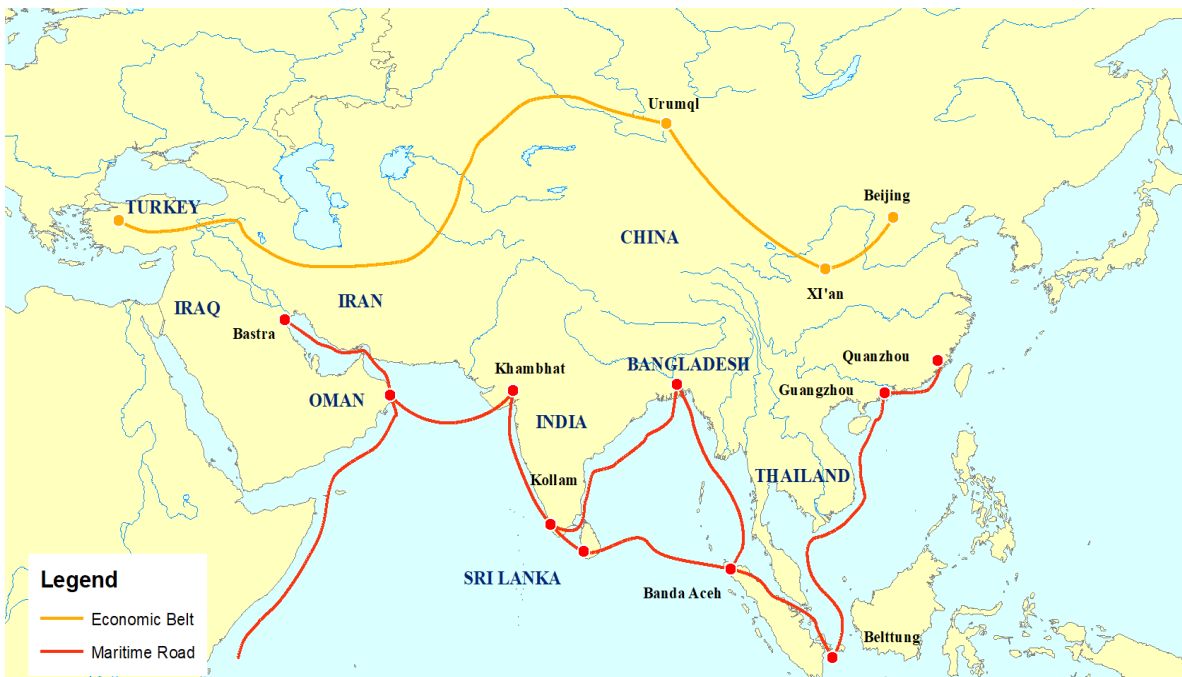
**Figure 1: Sri Lanka's Strategic Location between Both International Shipping Passage Way and the String of Pearls**



(Source: Based on Digital World Map 2021, Survey General Department of Sri Lanka)

**Figure 2: Sri Lanka's Strategic Location in Maritime Silk Road**

### ONE ROAD, ONE BELT



(Source: Based on Digital World Map 2021, Survey General Department of Sri Lanka)

- The Indian Ocean region poses serious security threats for China including terrorism, arms and material trafficking, drug trafficking, weapons of mass destruction and so on. In this situation, Sri Lanka would act as a buffer against these threats and China can survive as a hegemonic power in Asia (Kumar, 2017: 1111).

For these reasons, China tries to develop close economic relations with Sri Lanka. Apart from these, following factors impacted to Sri Lanka's interest to develop close economic relations with China; China is a useful friend to Sri Lanka to get the diplomatic support in global forums when in needed, particularly in the wake of human rights accountability issue in United Nations (UN) in the last phase of the 30 years' war;

China is an important source of Foreign Direct Investment (FDI), borrowings, aids, technical assistance and low cost imports to Sri Lanka in last few years; China to be a favourable alternative to funding from international financial institutions and Western donors that usually have numerous conditions when providing development loans; and China has become a potential source of tourism for Sri Lanka over the years (Kahandawaarachchi, 2015: 1). Relying on these factors, Sri Lanka too tries to build close economic relations with China, and it reached a new chapter during the period from 2005 to 2020. Accordingly, China-Sri Lanka economic relations have been rapidly increasing in recent years, and it has created opportunities as well as challenges for Sri Lanka. This dimension has not been adequately studied by researchers in fields of political science and international relations. Thus, this study was bridge the gap in the literature by analysing the growing economic relations between China and Sri Lanka focusing on opportunities and challenges for Sri Lanka. Therefore, the overall objective of this study was to analysis the growing economic relations between China and Sri Lanka focusing on opportunities and challenges for Sri Lanka. Within this broad objective of the study, the following specific objectives have been pursued: to examine how China-Sri Lanka economic relations have developed over times, and to explore the what factors have been impacted to China's success in close economic relations with Sri Lanka.

## LITERATURE REVIEW

Henokl and Webersik (2016) explored the European Union and China's means and ends of international cooperation, and what they may reveal about genuine in-tensions in two 'String of Pearls' countries, namely Sri Lanka and Myanmar. The study also explored the extent to which it is advantages for developing countries in Asia to involve China as a predominant development actor as compared to engaging with an extra-regional partner, such as the EU. The authors explained that in recent years, Chin's significant, influence and relevance as a development partner and donor in Asia is rising. But, before China becomes a development partner and donor in Asia, EU and its member states played important role in the trade and development cooperation with Asia. The EU and its member states mainly focus on international cooperation while promoting sustainable global development, participatory and equitable trade, peace and security. But, China's primary goals have not been much clear, and in many cases related to political and economic objectives. On the political level, China desires to have a trustworthy partner in international negotiations as well as for geopolitical considerations. Having good relations with 'String of Pearls' countries like Sri Lanka and Myanmar would help China in getting its energy demands, by securing international shipping lines. On the economic level, China's export-import-oriented economy needs trade partners, and Sri Lanka and Myanmar will have lots of advantages while the relationship with the rising power of China. They are; large-scale infrastructure development projects, increasing foreign direct investment, labour mobility, knowledge exchange and political and military support from China. There are some disadvantages to such a relationship with China. They are; negative terms of trade, growing debt burden (Sri Lanka), losing control over domestic natural resources (Myanmar) and possible threat to tackle with another rising Asian power like India (Henokl & Webersik, 2016).

Kumar (2017) examined the growing China-Sri Lanka strategic engagement in general and particularly under President

Mahinda Rajapaksa's regime, which actually transformed the bilateral ties. He describes that initially, China's Asia foreign policy mainly targeted on Southeast and Northeast Asia regions. However, in recent times, South Asia has gained tremendous importance in China's foreign policy, which currently aims to maintain and promote regional peace and stability and, in consequence, sustain China's own peaceful rise. As a result, South Asia constitutes an important region for China's strategic ambit, and Sri Lanka is no different. Kumar pointed out that the following five factors have impacted to China's interest in Sri Lanka;

1. Sri Lanka is strategically well located, midway between the oil-rich Middle East and South East Asia. This gives China an alternative option of opening direct access to the international sea lanes of the Indian Ocean, which would enhance safe trade;
2. Sri Lanka is rich in natural resources like coal, iron ore, hydrocarbons, natural gas and oil. Some of them have not been explored yet;
3. The Indian Ocean region poses serious security threats for China including piracy, terrorism, drug, arms and material trafficking, weapons of mass destruction and so on. In this regard, Sri Lanka can act as a buffer against these threats;
4. Sri Lanka will play a very important role in China's MSR initiative;
5. China's foreign policy involvement in South Asia is mainly India-centric. Over the last few decades, India has emerged as an economic power and regional military power in the region with a nuclear weapon and missile capacity. It becomes a challenge for China's rise and interests in Asia and beyond. In this case, China wants to use Sri Lanka's territory to balance the other Asian rising power India.

He further pointed out that China's policy towards Sri Lanka is aimed at increasing its own influence in the region, addressing the transnational issues, lessening India's influence and also curbing the ability of potentially hostile powers like the US and Japan to harm China's interests in the region (Kumar, 2017).

Diven (2016) provided insights into how a small state copes with changing external power structures, demonstrating that they are not merely reactive, but also proactive in influencing these shifting alliances. Divenin express that in recent years, particularly during the Rajapaksa's regime (2005-2015), the Sri Lankan economy tried to China grew. India and USA expressed their concerns on ongoing close China - Sri Lanka economic relations. He further expressed that after Sirisena came to power in 2015, many Chinese projects were put on hold and the USA reinvigorated its nearly defunct aid programme. India agreed to give new economic development assistance to Sri Lanka. But, after a few months, Sri Lanka again renewed its relations with China, and economic development projects restarted. The Study revealed that ongoing revelry between China, USA and India for influence in the Indian Ocean has naturally involved Sri Lanka. More than 80% of China's oil comes from the Arabic world, flows through the ocean, and passes through significant "strategic Chokepoints" including the Straits of Malacca and Hormuz. As such, China wants to secure the oceanic ports of Bangladesh, Myanmar, Pakistan, and Sri Lanka through its MSR initiative, and in recent years, China has given large amounts to Sri Lankan infrastructure projects, becoming Sri Lanka's

biggest economic assister and enjoying important political and economic influence (Diven, 2016).

Deysappriya (2006) analysed China-Sri Lanka economic relations in a comparative context, focusing on how trade, investment and tourism relations have developed over time, and how they compare to China's economic links with other countries in the region. According to Deysappriya, China-Sri Lanka relations have a long history, initially religious and cultural, and later it developed with economic and trade relations. It began with the Chinese Buddhist monk the Ven. Fa-Hien (Fa-Xian) visited Sri Lanka in 401 AD. Both countries officially established diplomatic relations on 07 February 1957, although their historic Rubber-Rice Pact (RRP) was signed 5 years before even this official milestone. The author argued that the strategic location of Sri Lanka, between key shipping lanes and the so-called 'String of Pearls' has significantly renewed the two countries' economic relations in recent years. The author further argued that China-Sri Lanka relations in the 21<sup>st</sup> century have been improved through high-profile top-level delegates meetings held in both countries, and it helped to the enhancement of economic relations in terms of trade, investment and tourism (Deysappriya, 2006). These writings and other related literature on this topic show that many studies have been done on China-Sri Lanka relations in the contexts of diplomatic, economic, strategic, social and cultural, relations. But no studies have been conducted about the growing economic relations between China and Sri Lanka focusing on opportunities and challenges for Sri Lanka particularly during the period from 2005 to 2020.

## MATERIALS AND METHODS

The study used mix methods for the subsequent analysis. Qualitative and quantitative data were gathered by using primary and secondary sources. Primary data were gathered from the official documents, reports and Geographic Information System (GIS) for Mapping. The researchers gathered official documents and reports from various government ministries, departments and authorities such as the Foreign Ministry, the Ministry of Industry and Commerce, the Ministry of Finance, Sri Lanka Export Development Board, the Central Bank of Sri Lanka, the Sri Lanka Customs and the Sri Lanka Tourism Development Authority. Besides that, the secondary data were gathered through published books, research papers, working papers, symposia proceedings, journal articles, newspaper articles and the internet. Descriptive statistical techniques were used to analyse the quantitative data which were gathered through different sources. Researchers also used critical discourse analysis as the method to analyse the qualitative data. The analysis concentered on speeches given by high-level Chinese and Sri Lankan leaders between 2005-2020 such as Chinese presidents, Sri Lankan presidents and Prime-minister, as well as statements delivered by foreign ministers in the two countries. The speakers whose statements were included are those who directly influence with China-Sri Lanka relations, especially those who make foreign policy decisions on behalf of their state. The data was presented using texts, tables and figures.

## RESULTS AND DISCUSSION

China-Sri Lanka economic relations have formally started with the Rubber-Rice Pact in 1952, and it reached a new chapter during the period from 2005 to 2020. The economic relations between two countries grew after 2005 because China was one of the few countries that continued to supply

defence equipment and arms to the Sri Lankan Army during war against LTTE. After end of the war, China also support to prevent the human rights accountability issue in UN in the last stage of Eelam war IV. Besides these reasons, Rajapaksa anti-India agenda also effected to strong pro-China economic relations in this period (Singh, 2018: 3). During this period, there were 18 high-level meetings between China and Sri Lanka (Kumar, 2017: 1114). Sri Lankan President Mahinda Rajapaksa visited China in February-March 2007 on the occasion of the fiftieth-anniversary celebrations of diplomatic relations between two nations, and signed the following eight bilateral agreements and MOUs with China;

1. Agreement on Economic and Technical Cooperation between China and Sri Lanka;
2. Agreement between the City of Guangzhou of China and District of Hambantota of Sri Lanka on the Establishment of Friendship City Relationship;
3. MOU between the Ministry of Construction of China and the Ministry of Urban Development and Sacred Area Development of Sri Lanka;
4. MOU on Tow Way Investment Promotion Cooperation between the Investment Promotion Agency of the Ministry of Commerce of China and the Board of Investment of Sri Lanka;
5. MOU on Cooperson in the Film Industry between the Film Bureau of the State Administration of Radio, Film and Television of China and the National Film Corporation of Sri Lanka;
6. MOU for the Donation of Eye Corneas and Promotion and Cooperation, Exchanges, Technical and Technology Transfer between the Red Cross Society of China and the Eye Donation Society of Sri Lanka;
7. MOU between the Chinese Academy of Agriculture Mechanization Sciences and Department of Agriculture of the Ministry of Agriculture of Sri Lanka;
8. MOU of Academic Exchange between the Beijing Foreign Studies University of China and University of Kelaniya of Sri Lanka (Kelegama, 2014: 132-133).

In addition to these agreements and MOUs, the China Development Bank and Central Bank of Sri Lanka signed into an Investment Facilitation Agreement to strengthen long-term economic relations between the two banks (Kelegama, 2014: 133). President Hu Jintao has described the continuing China-Sri Lanka economic relations as a model of small and big country cooperation and friendship (Rodrigo, 2012: 73-74). President Rajapaksa visited China seven times during his period. As a result of President Rajapaksa's efforts, President Xi Jinping visited Sri Lanka in September 2014, and he became the first Chinese President to visit Sri Lanka after 30 years (Jacob, 2014: 2). In the same year, two countries were in the edge to sign the bilateral Free Trade Agreement. But, it was not succeeded due to Sri Lanka's worry about the unrestricted flow of almost 90% of the Chinese goods, while Sri Lanka wants to allow only around 50% of Chinese goods (Deysappriya, 2016).

Rajapaksa's government was defeated in the presidential election in January 2015, and Maithreepala Sirisena became the new president of Sri Lanka. Maithreepala Sirisena, during the election campaign and even after winning the election, gave strong criticism of Rajapaksa's dealing with China.

Consequently, He ordered a full review of all Chinese investment projects proposed by Rajapaksa’s government. However, after a few months, president Sirisena made his first official visit to China in 2015 and gave guaranteed China that Sri Lanka still wants to develop close economic relations with China. The prime-minister Ranil Wickremasinghe made his official visit to China in April 2016 and further guaranteed China’s importance to China-Sri Lanka’s close economic relations. Then, China paid renewed attention to Colombo to use as the economic hub for the proposed BRI, and MSR project (Singh, 2018: 3-8). Chinese president Xi Jinping expressed this idea in 2018 while congratulating the 70s independent anniversary of Sri Lanka;

‘I pay high attention to the development of China-Sri Lanka relations, and I am willing to make a concerted effort with President Sirisena to push the China-Sri Lanka strategic comparative partnership of sincere mutual assistance and long-standing friendship to keep achieving greater development in the better interest of the two countries and its people’ (Singh, 2018: 4).

Sirisena’s government was defeated in the presidential election in November 2019, and Mahinda Rajapaksa’s brother Gotabaya Rajapaksa became a new president of Sri Lanka, and Mahinda Rajapaksa was appointed as the Prime-minister. They again adopted a strong pro-China foreign policy for Sri Lanka. While having an interview with Xinhua News Agency, the newly appointed Sri Lankan Prime-minister Mahinda Rajapaksa said that;

“Sri Lanka hopes to continue friendly relations with China...Sri Lanka never forgets the strong support given by China for the development of Sri Lanka” (Indian Express, 04 February 2018).

It gave a sign that Sri Lanka’s interest to build close economic relations with China. Sri Lankan President Gotabaya made his first official visit to China with the invitation of Chinese President Xi Jinping in January 2020, met Chinese leaders, and had an effective discussion on economic and trade co-operation. President Gotabaya also declared his willingness to continue friendly economic relations with China. These factors again evidence strong economic relations between the two countries under President Gotabaya Rajapaksa’s administration.

**TRADE RELATIONS**

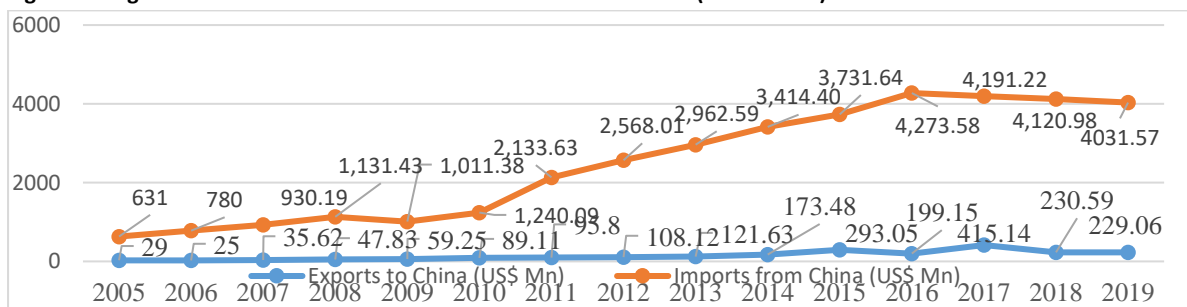
China is the world’s second-largest economy, with a GDP of 14.14 US\$ trillion in 2020. But, Sri Lanka has ranked as a lower middle-income country, with a GDP of 304.166 US\$ billion in 2020 (International Monetary Fund, 2020). Irrespective of the sizes of their economies, Sri Lanka and China have increased their bilateral trade relations with each other over the years. But, China has not been recognized as the main trading partner of Sri Lanka during the period 1990-2000, and USA and Japan were the main export and import partners, respectively. China’s importance as an importer into Sri Lanka emerged only during the latter part of the 2000s. China became Sri Lanka’s third and second main import partner, respectively in 2007 and 2011 (Deysappriya, 2016: 10), and China’s imports to Sri Lanka stood at US\$ 4031.57 million in 2019. Even though China become an important source of imports for Sri Lanka, China’s importance as an exporting partner is considerably low. Sri Lanka’s exports to China in 2019 were only US\$ 229.06 million. It is further proven with an analysis of the following data;

**Table 1: Sri Lanka’s Trade with China (2005-2019)**

Year	Exports to China (US\$ Mn)	Imports from China (US\$ Mn)	Trade Balance (US\$ Mn)
2005	29	631	-602
2006	25	780	-755
2007	35.62	930.19	- 894.57
2008	47.83	1,131.43	- 1,083.60
2009	59.25	1,011.38	- 952.13
2010	89.11	1,240.09	- 1,150.98
2011	95.80	2,133.63	-2,037.83
2012	108.12	2,568.01	-2459.89
2013	121.63	2,962.59	-2,840.96
2014	173.48	3,414.40	-3,240.52
2015	293.05	3,731.64	-3438.59
2016	199.15	4,273.58	-4,074.43
2017	415.14	4,191.22	-3,776.08
2018	230.59	4,120.98	-3,890.39
2019	229.06	4031.57	-3802.51

(Source: Created by Researchers, 2021, based on The Ministry of Industries and Supply Change Management, 2017 and Sri Lanka Exports Development Board, 2020)

**Figure 3: Negative Trade Balance of China - Sri Lanka Trade Relations (2005 - 2019)**



(Source: Created by Researchers, 2021, based on The Ministry of Industries and Supply Change Management, 2017 and Sri Lanka Exports Development Board, 2020)

The above data shows that the total trade between China and Sri Lanka has grown rapidly over the years, and has more than tripled over the ten-year period from 2010 (US\$ 1,240.09 million) to 2019 (US\$ 4031.57 million). Sri Lanka exports to China is very low over the last fifteen years, but they showed an upward trend reaching US\$ 293.05 million in 2015, but, has decreased to US\$ 199.15 million in 2016. Again it increased by US\$ 415.14 million in 2017 and decreased to US\$ 230.59 million in 2018 and US\$ 229.06 million in 2019. Sri Lanka imports from China have grown significantly over the last fifteen years. As a result of this, Sri Lanka's balance of trade with China has been negative, and the trade deficit started to deepen during the period 2005-2019, with the rapid expansion of imports.

Sri Lanka's main exports to China from 2005 to 2019 are raw coconut coir, articles of apparel and clothing accessories, tea whether or not flavored, rubber and articles thereof, diamonds and other precious stones (see Table 2). Apart from items indicated in table 2, titanium ore, zirconium ore and activated carbon also represent an important part of Sri Lanka's export items to China (Kelegama, 2016: 135-136; The Ministry of Ports and Shipping, 2020). It revealed that except of apparel and clothing accessories, all of Sri Lanka's

major exports to China are primary goods which are normally of lower value than secondary goods. Sri Lanka's main imports from China from 2005 to 2019 are electrical machinery and equipment, boilers and machinery and parts, cotton, iron or steel and its articles, man-made staple fibres, knitted or crocheted fabrics and fertilizers (see Table 2) (Kelegama, 2016: 136; The Ministry of Ports and Shipping, 2020). Apart from items mentioned in table 2, railway locomotives, organic and inorganic chemicals along with coated, covered, or laminated fabric also represent an important part of Sri Lanka's imports items from China. It revealed that exception of cotton, all of Sri Lanka's major imports from China are from the secondary sector of the economy, which are normally of higher value than primary goods. It is the main reason for the growing deficit Sri Lanka faces in its trade balance with China. Sri Lanka understood this situation would be very serious for the Sri Lankan economy in future with a huge gap. Therefore, the Sri Lankan government introduced new export items to China such as a part of electronic integrated circuits, printed circuits, micro assemblies and chemicals (Deysappriya, 2016: 12). It helped to narrow down its negative trade balance with China in 2017 with some extent (see Figure 3).

**Table 2: Sri Lanka's Major Exports to China and Imports from China (2005-2019)**

Sri Lanka's Major Exports to China	Sri Lanka's Major Imports from China
Raw coconut coir	Electrical machinery and equipment
Articles of apparel and clothing accessories	Boilers and machinery and parts
Tea whether or not flavoured	Cotton
Rubber and articles thereof	Iron or steel and its articles
Diamonds and other precious stones	Man-made staple fibres
	Knitted or crocheted fabrics
	Fertilizers

(Source: The Ministry of Ports and Shipping, 2020)

### Investment Relations

With the 'String of Pearls concept', China considered Sri Lanka as a strategically important location in a key shipping lane. Thus, China wants to build a friendly relationship with Sri Lanka, while investing in mega investment projects which have not yet been touched by any other countries (Deysappriya, 2016: 13). The following two factors have contributed to this situation. First, Sri Lanka became a lower middle-income country, and the western countries and international financial institutions including the World Bank, the International Monetary Fund (IMF), and the Asian Development Bank (ADB), impose many conditions based on human rights, rule of law, democracy, good governance, anti-corruption measures, trade liberalization, and structural adjustments when they provide the development loans and aids for Sri Lanka (Kahandawaarachchi, 2015: 10). It is further proven with the following words of the official from the Sri Lankan Ministry of Finance and Planning;

"No one was interested in investing in Sri Lanka.... anything is great when there is no alternative" (Iain, 3 May 2018).

Therefore, the Sri Lankan government tried to make closer economic relations with China in order to get the investment support it required. Second, Rajapaksa's government have not made any conditions for donors and tried to get investment assistance with minimum procedures and China is suited for requirements (Deysappriya, 2016: 13). FDI played an important role as a source of economic growth, particularly in developing countries. But, FDI inflows from China to Sri Lanka were very low in the early and mid-2000s. Deysappriya (2016) pointed out that FDI inflows from China to Sri Lanka were only US\$ 61.7 million during the period from 2003 to 2008, and it was much low in the period from 2009-2011 (Deysappriya, 2016: 13). However, the FDI from China has grown up during the period of 2012 to 2017. It is further proven with an analysis of the following data;

**Table 3: FDI Inflows to Sri Lanka over the Period 2012 -2017 (US\$ Million)**

Country	2012	2013	2014	2015	2016	2017
China	185	240	403	322	802	1,630
Hong Kong	252	140	175	174	108	1,344
India	26	33	35	44	44	1,077
Malaysia	49	180	42	77	152	980
UK	62	67	383	33	254	905
Netherlands	62	103	73	69	92	808
Singapore	56	92	68	71	62	885
UAE	185	102	42	41	51	550
USA	168	163	380	348	391	369

(Source: Created by Researchers, 2021, based on Board of Investments of Sri Lanka Annual Reports, 2013- 2018)

Above figure shows that the FDI inflows to Sri Lanka in 2012-2017 annually. It revealed that China became second largest FDI donor equally with the United Arab Emirates (UAE) for Sri Lanka in 2012, while Hong Kong (considered as a separate investment source) were reported to be ranked first. FDI inflows from China to Sri Lanka in 2012 were US\$ 185 million. After 2012, FDI inflows from both Hong Kong (except 2017) and the UAE decreased sharply, while inflows of FDI from China increased rapidly to US\$ 1630 million by 2017. China's FDI has mostly invested in telecommunications, power and energy industries in Sri Lanka. Similarly, Chinese businesses have also made significant investments in garments, electronics manufacturing facilities and leather in Sri Lanka. Latter, these three sector use to play significant role in economic performance of the country (Jayarathne, 2017).

**Borrowings, Loans and Technical Assistance**

In addition to being a favourable FDI donor country, China has been recognized as a vital provider of borrowings and loans to Sri Lanka during the period from 2005-2020. There are two reasons for this. First, the 2005 government have not made any conditions for donors and tried to get a loan with minimum procedures and China suited for requirements. Second, Sri Lanka became a lower middle-income country and loans from donors were cut down and whatever loans gave with many conditions. For example, the western countries and international financial institutions like the World Bank, the IMF, and the ADB impose many conditions based on human rights, rule of law, democracy, good governance, anti-corruption measures, trade liberalization and structural adjustments when they provide the development loans and borrowings for Sri Lanka. The Sri Lankan government understand these conditions would be undermined its

sovereignty and interfere in the internal affairs of the country. But, China does not make any conditions and interfere in the internal affairs of Sri Lanka, while providing development loans and borrowings. It is further proven by the following statement of former Chinese Foreign Minister Wang Yi, while meeting former Sri Lanka's Foreign Minister G. L. Peiris in February 2014;

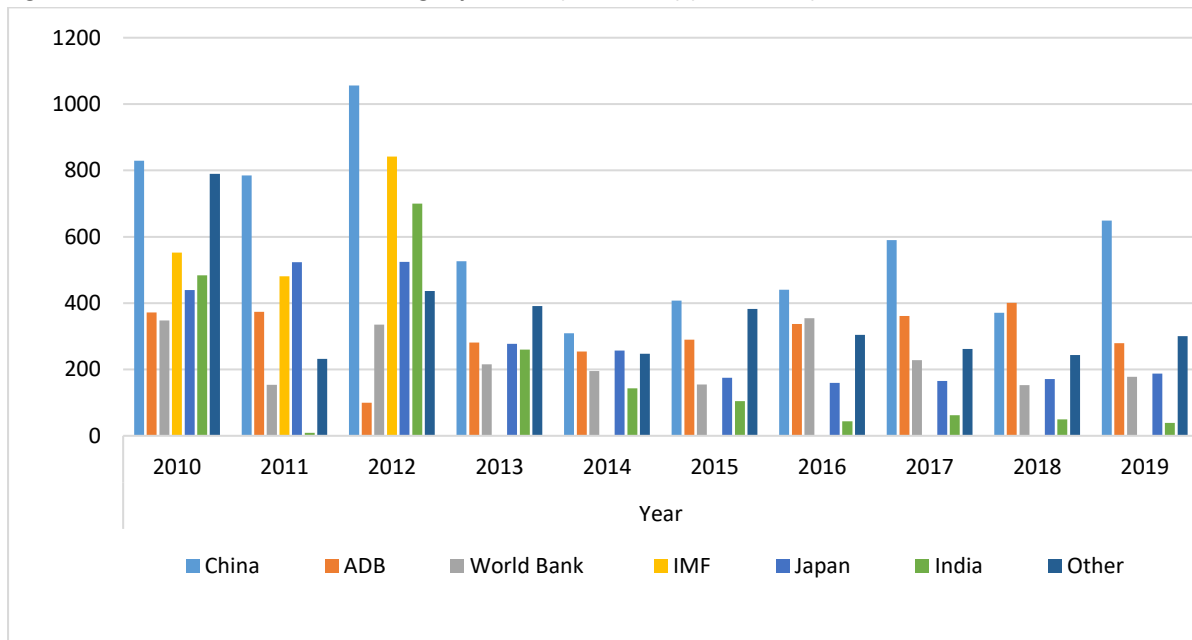
“China backs the Sri Lankan government in safeguarding national independence, sovereignty and territorial integrity, and China believes in the Sri Lankan people's wisdom and capacity to handle their own affairs.... China opposes some country's interference in the internal affairs of Sri Lanka under the pretext of human rights issues” (Xinhua, 11 February 2014).

It is also proven by the following statement of former Sri Lankan Deputy Minister of Policy Planning and Economic Development Dr. Harsa De Silva;

“Unlike the World Bank or IMF, the Chinese banks are giving loans with no regulations attached, and the former government was driven by its desire for quick cash without conditionally. If the previous government were to adhere to the conditions of the IMF or World Bank many of the loans would not have been approved” (Colombage, 26 August 2014).

Their words clearly show why Sri Lanka prefers China as a development partner. According to the Ministry of Finance (2020), China provided US\$ 7.2 billion value of borrowings to Sri Lanka from 1971 to 2020, among them US\$ 6.91 billion, representing around 95.97%, come during the period of 2005-2020 (The Ministry of Finance, 2020). China also become the largest lender to Sri Lanka during the period of 2010-2019, except in 2018. It is further proven with an analysis of the following data;

**Figure 4: Sri Lanka Government Borrowings by Lenders (2010–2019) (US\$ Million)**



(Source: Created by Researchers, 2021, based on the Ministry of Finance, 2011-2020)

According to the figure, China has continuity-provided loans to Sri Lanka, while loans have been limited from the ADB, Japan, World Bank, India and IMF. 27.7% of Sri Lankan foreign borrowings came from China during the period from 2010 to 2019, followed by 14.1% from ADB, 13.3% from Ja-

pan and 10.7% from World Bank. Most of the Chinese borrowings are given by either state-owned or state-affiliated banks in China. In this regard, the Export-Import Bank of China and China Development Bank Cooperation played a key role. Most of these loans are used for infrastructure development in Sri Lanka (see Table 4).

**Table 4: Major Projects Carried Out with China's Technical and Financial Assistance**

Name of the Project	Cost (US\$ Million)	Year Completed
BMICH	2.14	1973
Special Economic Zone at Mirigama	28	2009
Polonnaruwa Water Supply & Sanitation Project	32.93	2010
Hambantota Port Development Project <sup>3</sup>	1400	2010
Southern Expressway	741.1	2011
Norocholai Power Station (Lak Wijaya Coal Power Station)	460	2011
Lotus Pond Theatre	30	2011
Colombo-Katunayake Expressway	248.2	2013
Mattala International Airport	209	2013
Moragahanka Reservoir Project (Stage I)	370	2017
Colombo Lotus Tower	104.3	2019
Matara-Hambantota Extension of Southern Expressway	250	2020
National Nephrology Hospital in Polonnaruwa	295	2021
The first phase of Central Expressway	1000	Not Yet Opened
The International Financial City (Port City) <sup>4</sup>	1400	Not Yet Opened
Railway Track from Matara to Kataragama	278.2	Not Yet Opened

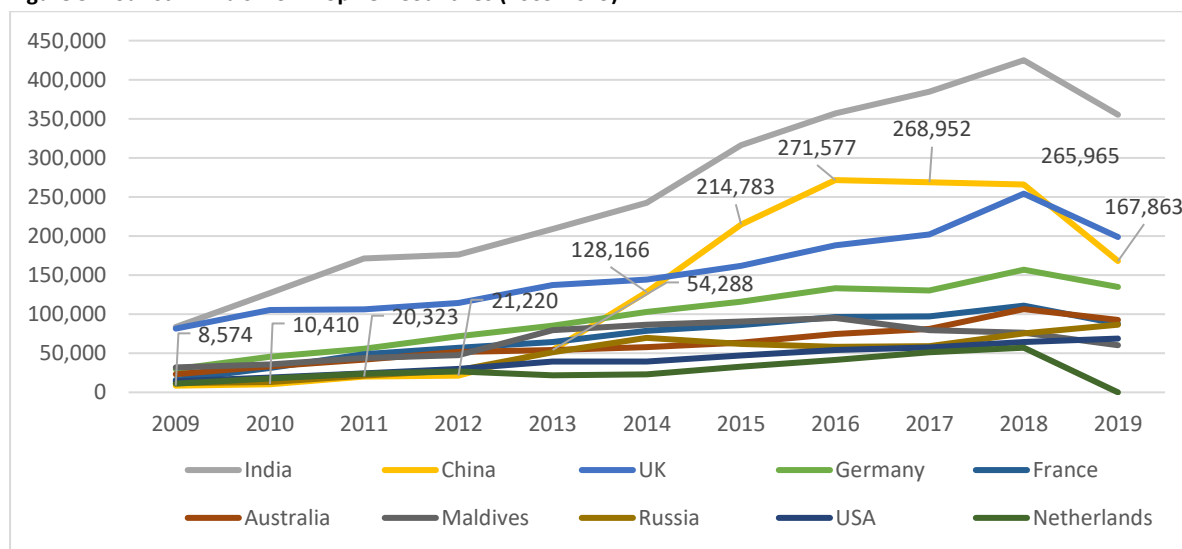
(Source: Created by Researchers, 2021)

According to the Table, the SEZ at Mirigama was a very significant project, which allocated a specific area to attract foreign investors for the first time in Sri Lankan history. Similarly, the Hambantota Port Development project and Mattala International Airport project were proposed to advance the maritime and aviation sectors, respectively. With regard to future infrastructure projects, planned the International Financial City, is expected to become an economic and trade hub of the Indian subcontinent, and more broadly, of the Indian Ocean region (Deyshappriya, 2016: 17).

### Tourism Relations

Sri Lanka is well known as the "Pearl of the Indian Ocean", due to its islandic position and natural beauty which, together with the warm hospitality of its people, attract a significant number of tourists from all over the world (Deyshappriya et al., 2019). Consequently, 1,913,702 international

tourists visited to Sri Lanka in 2019, and the tourism sector become the third largest foreign income earner of the economy, after remittances and garments. The tourism sector earned US\$ 3,606.9 million in 2019, and it made a 4.3% direct contribution to GDP. Tourism also generated 402,607 direct and indirect employment opportunities in 2019, which is hoped to increase up to 943,000 by 2025 (Sri Lanka Tourism Development Authority, 2019). According to the Sri Lanka Tourism Strategic Plan 2017-2020 (2017), "it is hope that Sri Lanka will be identified as a place for memorable, authentic and diverse tourism experiences in the world by 2025" (Tourism Strategic Plan 2017-2020, 2017). The following data shows the tourist arrivals and share of tourist arrivals from the top ten countries during the period of 2009-2019.

**Figure 5: Tourist Arrivals from Top Ten Countries (2009-2019)**

(Source: Created by Researchers, 2021, based on Sri Lanka Tourism Development Authority, 2009-2019)

<sup>3</sup> In 2017, Sri Lanka formally handed over the Hambantota Port to Chinese company called the China Merchants Port Holdings Company (CMP).

<sup>4</sup> China was the largest financier in this project, committing US\$760 million in loan, ahead of Japan (US\$413 million) and World Bank (US\$105 million).



**Table 5: Tourist Arrivals and Share of Tourist Arrivals from the Top Ten Countries (2012 – 2019)**

Country	2012		2013		2014		2015		2016		2017		2018		2019	
	Arrivals	%	Arrivals	%	Arrivals	%	Arrivals	%	Arrivals	%	Arrivals	%	Arrivals	%	Arrivals	%
India	176,340	17.5	208,795	16.4	242,734	15.9	316,247	17.6	356,729	17.4	384,628	18.2	424,887	18.2	355,002	18.6
China	21,220	2.1	54,288	4.3	128,166	8.4	214,783	11.9	271,577	13.2	268,952	12.7	265,965	11.3	167,863	8.8
UK	114,218	11.4	137,416	10.8	144,168	9.4	161,845	9.0	188,159	9.17	201,879	9.5	254,176	10.9	198,776	10.4
Germany	71,642	7.1	85,470	6.7	102,977	6.7	115,868	6.4	133,275	6.5	130,227	6.2	156,888	6.7	134,899	7.0
France	56,863	5.7	64,388	5.1	78,883	5.2	86,126	5.0	96,440	4.7	97,282	4.6	110,928	4.7	87,623	4.8
Australia	51,614	5.1	54,252	4.3	57,940	3.8	63,554	3.5	74,496	3.6	81,281	3.8	106,449	4.6	92,674	4.6
Maldives	47,572	4.7	79,474	6.2	86,359	5.7	90,617	4.8	95,167	4.6	79,371	3.8	76,108	3.3	60,278	4.5
Russia	28,402	2.8	51,235	4.0	69,718	4.6	61,846	3.44	58,176	2.84	59,191	2.8	75,308	3.2	86,549	3.1
USA	29,907	2.9	39,621	3.1	39,371	2.6	47,211	2.63	54,254	2.65	57,479	2.7	64,497	2.8	68,832	3.6
Netherlands	26,754	2.6	21,989	1.7	23,165	1.5	32,742	1.8	41,373	2.0	51,148	2.4	57,160	2.4	—	—

(Source: Created by Researchers, 2021, based on Sri Lanka Tourism Development Authority, 2012-2019)

According to the figure and table, Indian tourists became a dominant tourism partner of Sri Lanka during the period of 2009-2013, while China has not been recognized as the top five tourism partner of Sri Lanka. Similarly, German, India and the United Kingdom (UK) were top the three sources of tourist arrivals in Sri Lanka until 2014, and China's contribution was very low during this period. However, China-Sri Lanka's close investment and trade relations create opportunities to steadily increase the number of Chinese tourists to Sri Lanka after 2013. Consequently, China became the third top tourist partner of Sri Lanka in 2014, the second top tourist partner of Sri Lanka from the period of 2015-2018, and again China let down as the third top Sri Lankan tourist partner in 2019. Similarly, Chinese tourist arrivals raised by 71.7% during the period 2010-2019, while Indian and UK tourist arrivals only raised by 20.2% and 10.7% respectively. It was estimated that around 1,189,140 Chinese tourists visited Sri Lanka during the period of 2015-2019. According to the existing trend, China will be the top tourist partner of Sri Lanka in the near future. Therefore, to attract more Chinese tourists, the number of direct flights between Colombo and Beijing and Colombo and Hong Kong has increased by the Sri Lankan government. Sri Lankan government also simplified the visa for Chinese citizens and Sri Lankan Airlines also offers cheap airline tickets to China. Apart from these, the government has introduced holiday packages to attract more Chinese tourists. If the government will be able to develop the tourism market this way, it will positively have impacted the economic growth of the country.

### **Opportunities for Sri Lanka Being with China**

China-Sri Lanka's economic and trade relations have opened up lots of opportunities for Sri Lanka. These opportunities can be analyzed in the following as;

#### **Infrastructure Development of Sri Lanka**

China-Sri Lanka's economic relations have positively impacted the vast infrastructure development of the country. As such, Sri Lanka got infrastructure development that never thought Sri Lanka would

get in recent history. Especially, Under the BRI, China has worked with a number of infrastructure development projects in Sri Lanka including ports, water, electricity, transportation, etc.... (see table: 4), and it made significant contributions to the socio-economic development of the country. The SEZ at Mirigama was a very significant project, which allocated a specific area to attract foreign investors for the first time in Sri Lankan history. Similarly, the Hambantota Port Development Project and Mattala International Airport project were proposed to advance the maritime and aviation sectors, respectively. With regard to future infrastructure projects, planned the International Financial City, is expected to become an economic and trade hub of the Indian subcontinent, and more broadly, of the Indian Ocean region (Deyshappriya, 2016: 17). Beyond that BRI provides soft infrastructure development while improving people to people link by enhancing cooperation on education, sport, health, science, technology...etc. For instance, China provided more than 1200 scholarships, training and internships to Sri Lankan every year since 2015.

#### **Economic Benefits**

Sri Lanka is strategically well located in one of the main points in China's recently initiated MSR with three international shipping ports such as Colombo port, *Trincomalee* port and *Hambantota* international port (see Figure 2). Under this initiative, China aims to reclaim the past gloss of the ancient Silk Road, while increasing connectivity between China, Asia, Europe and Africa. Thus, China wants to use Sri Lanka as an economic and trade hub for its exports and imports under the MSR initiative (Kumar, 2017: 1111-1112). Sri Lanka is located just a few naval miles away from the main east-west shipping way, through which an estimated approximately 60,000 ships pass every year, carrying half of all container ships and two-thirds of the world's oil ships (Diven, 2016: 11). The Colombo port also has a strong feeder link to other in Asia and Africa. These ports do nearly 30% of their trade in Colombo port. As well, Colombo port has a significant potential to attract new and larger shipping vessels due to its capabilities such as port technology, warehousing and support service. To facilitate this, the Sri Lankan government started to develop major three ports in Sri Lanka including Colombo

port, Hambantota port and Trincomalee with financial support from China. The International Financial City also is being developed, which aims to deliver supportive services such as banking, insurance, brokerage, logistics and technology (Wijayasinghe, 2018: 391-392). These developments together with BRI will transform Sri Lanka into an economic and trade hub in BRI. Similarly, Sri Lanka is considered as one of the pearls of China's String of Pearls concept, which has gained traction in recent years because of China's increasing strategic interests over countries in the Indian Ocean Region (see Figure 1). Consequently, there are lots of economic benefits for Sri Lanka too with being an important location in China's maritime silk road and China's string of pearls concept. Firstly, Sri Lanka can make an integrated web of mutually beneficial economic social and political ties. Secondly, Sri Lanka can grow up the trade relationship between west to east countries and the different continents. Lastly, it will attract infrastructure development-oriented funding from the Chinese government for Sri Lanka (Jayarathne, 2017). This revealed that Sri Lanka being an important location in China's MSR initiative and China's string of pearls concept will provide lots of economic benefits for Sri Lanka.

### **Military Support**

Over the years, military cooperation between the two countries has been enhanced, and China provided military support for Sri Lanka when needed. Wang Yiwei argued that "smaller countries in the south Asian region are willing to military cooperation with China because they are fearful about Indian military strength" (Sutirtho, 21 March 2017). The high level of military visiting contributed to enhancing the military cooperation between the two countries. The Chinese Defence Minister Liang Guanglie visited Sri Lanka in 2012. During his visit, provided a grant of US\$ 100 million to construct the army camps in the northern and eastern provinces of Sri Lanka. The Vice-Chairman of China's Central Military Commission, Air Chief Marshal Xu Qiliang, visited Sri Lanka and met Secretary for defense and Urban Development, Gotabaya Rajapaksa in September 2014, and both parties emphasize the need for better military-to-military ties between the two countries (Singh, 2018: 7). Chinese State Councillor and Defence Minister, Chang Wanquan visited Sri Lanka in March 2017, and met President Sirisena. After the meeting, President Sirisena declared that;

"Sri Lanka will energetically follow through joint cooperation project with China in all fields.... Sri Lanka will, as usual, steadfastly support China's stance in International and regional affairs as well as on issues of great concern to China. We also trust that China will continue to provide the required training to the Sri Lankan security forces" (Xinhua, 21 March 2017).

The naval ships visiting contributed to further strengthening of China-Sri Lanka military relations. China's naval ships visited three ports in Sri Lanka in 1985, which regards as the Chinese Navy's first visit to a foreign country. China's naval ships visited Colombo on the way to China's first ever multi-lateral naval exercise with Pakistan in March 2007. China's naval ships again visited Colombo in 2009 and 2010 on their way to join anti-piracy operations in the Gulf of Aden (Singh, 2018: 8). The Chinese two People's Liberation Army (PLA) submarines visited Sri Lanka in September and November 2013. This was a result of Rajapaksa's government's support for China's MSR idea (Jacob, 2014: 1). The Chinese naval hospital ship peace ark made its first visit to Colombo Port in August 2017 (Singh, 2018: 8).

China has been recognized as a major supplier of military equipment and assistance to Sri Lanka since the 1950s. Premadasa's government purchased arms and ammunition necessary for Navy from China in 1990. The government also imported military equipment from the China North Industries Cooperation in 1993 (Lindberg, 2011: 44). Kumaratunga's government purchased Type 66-152 mm towed guns in 1999, O3 Type O62 patrol crafts and 10 BT-A6 Trainer Aircraft in 2000, 6K-8 Trainer in 2001 and 10 WZ-551 APC in 2002 (Lindberg, 2011: 44-45). China's arms sales to Sri Lanka steadily increased during the period of Eelam war IV, which began in July 2006. Sri Lanka signed an arms deal valuing US\$ 37.6 million with the China-based Poly Technologies for Jian-7 fighters, JY 11 -3D air surveillance radars, armored personnel carriers, T-56 assault rifles, machine guns, anti-aircraft guns, rocket-propelled grenade launchers and missiles (Kumar, 2017). The Chinese government also gave six F-7 fighter aircraft to the Sri Lankan government free of cost. As such, Sri Lanka became China's eighth-largest arms market (Wheeler, 2012: 11). China also cooperates with Sri Lanka, while providing military training and modernising and expanding Sri Lanka's defense force (Kumar, 2017: 1118-1119).

### **Diplomatic Support Given by China at the Global Forums**

China provided diplomatic support for Sri Lanka at the global forums on various issues, particularly human rights issue risen by the western countries. China stood with Sri Lanka when the United Nations Commission for Human Rights (UNCHR) and United Nations Sub Commission on the Prevention of Discrimination Against Minorities (UNSCPAD) pilloried Sri Lanka for its negative human rights record during the period of JVP insurgency (1987-1989). This support was given when even traditional friends such as the Union of Soviet Socialist Republic (USSR), Cuba and Yugoslavia were influenced by India not to support Sri Lanka (Vandergert, 2002: 40). Similarly, China provided strong support for Sri Lanka in the wake of human rights accountability issue in UN in the last stage of Eelam war IV. For example, China voiced strongly against the United States-backed Human Rights Council Resolution (HRCR) against Sri Lanka in 2012 and 2021 (Cameron, 2002: 2-14). The Chinese Foreign Minister Wang Yi made the following statement while supporting Sri Lanka against the UNHRC resolution;

"China opposes some countries' interference in the internal affairs of Sri Lanka under the pretext of human rights issues.... We believe in the Sri Lankan people's wisdom and capacity to handle their own affairs" (Cameron, 2002: 2-14). Similarly, China voted several times in favour of Sri Lanka at the United Nations Human Rights Council (UNHRC) regarding war crimes allegations. China gave valuable support to Sri Lanka to enter the ASEAN Regional Forum in 2007, and get the dialogue partner status in the Shanghai Cooperation Organization (SCO) (Kelegama, 2014).

### **Growth in Tourism**

The China-Sri Lanka close economic relations have clearly impacted to attract more Chinese tourists to Sri Lanka after 2013. China become the third top tourist partner of Sri Lanka in 2014, and the second top tourist partner of Sri Lanka in the period of 2015-2018, pushing the UK into the third position, and again China become the third top tourist partner of Sri Lanka in 2019. Similarly, Chinese tourist arrivals raised by 71.7% during the period 2010-2019, while Indian and UK tourist arrivals only raised by 20.2% and 10.7% respectively. It was estimated that around 1,189,140 Chinese tourists visited Sri Lanka during the period of 2015-2019 (see Figure: 5

and Table 5). According to the existing trend, there is a high possibility for China to become the top tourist partner of Sri Lanka in the near future (Deyshappriya et al., 2019: 49-55). Therefore, to attract more Chinese tourists, the number of direct flights between Colombo and Beijing and Colombo and Hong Kong has increased by the Sri Lankan government. Sri Lankan government also simplified the visa for Chinese citizens and Sri Lankan Airlines also offers cheap airline tickets to China. Apart from these, the government has introduced holiday packages to attract more Chinese tourists. If government will be able to develop the tourism market this way, it will positively have impacted to the economic growth of the country.

### **Challenges Faced by Sri Lanka**

Sri Lanka has faced lots of challenges while having an economic relationship with China. These challenges can be analysed the following as;

#### **Concerning on Indian Factor**

Sri Lanka has opened the door for China to make a significant economic and strategic involvement in Sri Lanka. It became critical when the Sri Lankan government formally sell out the Hambantota port to Chinese company called the China Merchants Port Holdings Company (CMP) in December 2017. India evaluated this situation as a huge challenge for her to remain as a regional power in South Asia over the years with economic power and a regional military power with a nuclear weapons and missile capability (Uluwaduge and Changfeng, 2021). Raveesh Kumar<sup>5</sup> while addressing the Hambantota “trade-off” in December 2017 said that, “India expects Sri Lanka to be mindful of its security concerns and sensitivities” (Institute of Peace and Conflict Studies, 2013; Kumar, 2017). At the same time, India developed a strategic partnership with the USA and Japan to face China’s security concerns. China responded this saying that “one mountain cannot accommodate two tigers”, and tried to prevent the rise of India, which is emerging as a competitor in Asia and beyond. Therefore, China involvement in Sri Lanka has become a possible challenge for Sri Lanka to tackle with big brother or hegemonic power India (Kumar, 2017). Therefore, the close economic relations between China and Sri Lanka should not come at the geo-political security concerns of India. If such a challenge happened, the Sri Lankan government should balance its bilateral relations with two rising powers in Asia to work out a ‘win-win’ situation.

#### **Negative Trade Balance**

The total trade between China and Sri Lanka has grown rapidly over the years, and it has increased more than triple over the ten-year period from 2010 (US\$ 1,240.09 million) to 2019 (US\$ 4031.57 million). But, Sri Lankan exports to China is very low over the last fifteen years, but they showed an upward trend reaching US\$ 293.05 million in 2015, however they decreased to US\$ 199.15 million in 2016. Again it increased US\$ 415.14 million in 2017 and decreased to US\$ 230.59 million in 2018 and US\$ 229.06 million in 2019 (see Figure: 3 and Table 1). This import-centric China-Sri Lanka trade relation has led to a severe negative trade balance for Sri Lanka. The negative trade balance started to deepen during the period 2005-2019, with the rapid expansion of imports, and it becomes US\$ - 4,074.43 Million in 2016, US\$ - 3,776.08 million in 2017, US\$ - 3,890.39 million in 2018 and US\$ - 3802.51 million in 2019 (see Figure: 3 and Table 1). This

situation is going to be very serious for the Sri Lankan economy in future with a huge gap. Therefore, Sri Lanka should improve its export items and try to narrow its trade deficit with China. Consequently, Sri Lanka has identified new export items such as a part of electronic integrated circuits, printed circuits, micro assemblies and chemicals. This item could be exported to China at a zero tariff rate. Finally, it will help to reduce the negative trade balance of Sri Lanka with China.

#### **Debt Burden and Low Investment Return**

Due to the regular flowing funding and loans from the donors, Sri Lanka faces economic difficulties due to a debt burden to China and the rest of the world. According to the central bank of Sri Lanka, Sri Lanka’s foreign debt was US\$ 56.8 billion, by February 2020, and it must make US\$ 4.8 billion in debt repayment in 2020. Sri Lanka’s debt equals 81.6% of its Gross Domestic Product (GDP), and IMF stressed it as the third highest ratio among emerging economies. By 2020, 95.4% of the government revenue was used to repay the national debt (International Monetary Fund, 2020). Sri Lanka has faced many difficulties to repay the debt to China and the rest of the world for its funding and loans, and the Sri Lankan government decided to restructure the debt agreements with China. A good example of this is the funds taken for the Hambantota Port Development Project in 2008. When the government was unable to repay the US\$ 1.4 billion loan for China, the government formally leased out the Hambantota Port to a Chinese company called the China Merchants Port Holdings Company (CMP) for 99 years with US\$ 1.1 billion debt write-off (Wijayasiri and Senaratne, 2018: 395). Similarly, some of the Chinese-funded projects in Sri Lanka have not generated enough revenue to repay the loans. A good example of this is the Mattala International Airport (MIA). It was opened in March 2013 but failed to attract business. In the beginning, several airlines came to MIA, but due to low demand, these airlines left MIA. In 2016, the government called for Expressions of Interest to take part in commercial activities as MIA is not generating enough revenue to repay the loans taken from China. Some called it “the world’s emptiest international airport’ due to its low number of flights (Wijayasiri and Senaratne, 2018: 395-396). This situation will create an economic crisis in Sri Lanka in the future. Therefore, the Sri Lankan government should pay attention to making a priority list while taking loans from donors.

### **CONCLUSIONS**

China-Sri Lanka economic relations formally started with the Rubber-Rice Pact in 1952, and it reached a new chapter during the period from 2005 to 2020. Sri Lanka has gained many opportunities due to close economic relations with China. Sri Lanka being an important location in China’s MSR initiative and China’s string of pearls concept provided lots of economic benefits for Sri Lanka. China become a significant export market, source of FDI, source of low cost imports for Sri Lanka, vast infrastructure development of the country and source of the tourism industry in Sri Lanka. China also became a key source of military and diplomatic support for Sri Lanka when needed, especially in the wake of the human rights accountability issue that emerged after the end of the civil war. Sri Lanka’s economic relations with China present

<sup>5</sup> Raveesh Kumar is the spokesperson for the Ministry of External Affairs, India.

both opportunities as well as challenges. China's involvement in Sri Lanka has become a possible challenge for Sri Lanka to tackle with big brother or hegemonic India. Therefore, the close economic relations between China and Sri Lanka should not come at the geo-political security concerns of India. If such a challenge happened, the Sri Lanka government should balance its bilateral relations with two rising powers in Asia to work out a 'win-win' situation. The severe negative trade balance for Sri Lanka become another challenging area of Sri Lanka's economic relations with China. This situation is going to be very serious for the Sri Lankan economy in future with a huge gap. Therefore, Sri Lanka should improve its export items and try to narrow its trade deficit with China. Consequently, Sri Lanka has identified new export items such as a part of electronic integrated circuits, printed circuits, micro assemblies and chemicals. This item could be exported to China at a zero tariff rate. The huge debts and low investment return also become a challenging area for Sri Lanka's economic relations with China. This situation created an economic crisis in Sri Lanka. Therefore, the Sri Lankan government should make the possible arrangements to overcome this problem.

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