

China-Sri Lanka Economic Cooperation

International Think-tank Forum on
“Building the Community of Common
Destiny between China and its Neighbors:
Challenges and the Future”

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Institute of Policy
Studies of Sri Lanka

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Points of discussion

Scope of economic cooperation

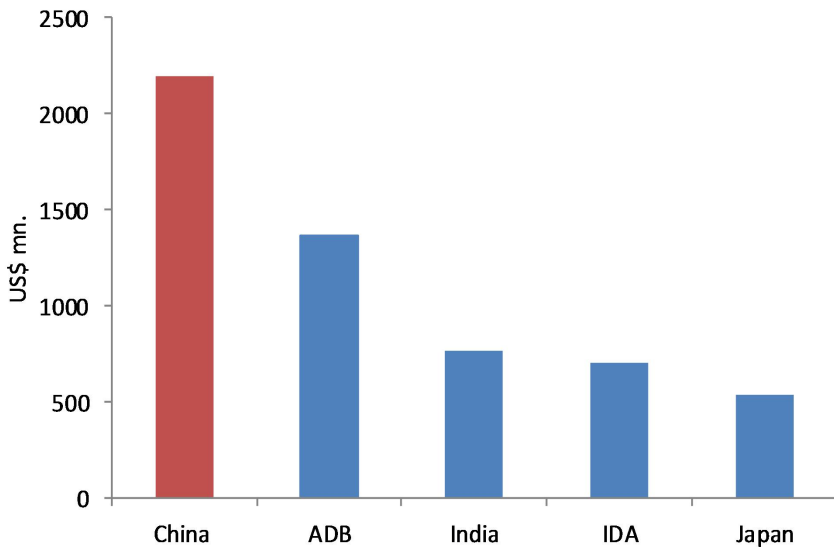
- Development finance
- Trade
- FDI

Challenges in fostering closer economic cooperation

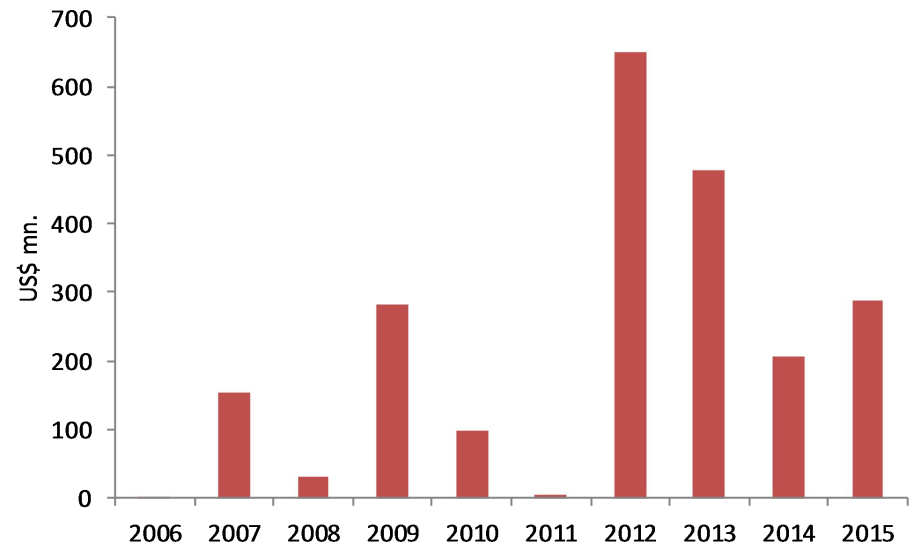
- Domestic politics
- Geo-political considerations

China a major source of development finance

Net receipts of loans during 2006-2015



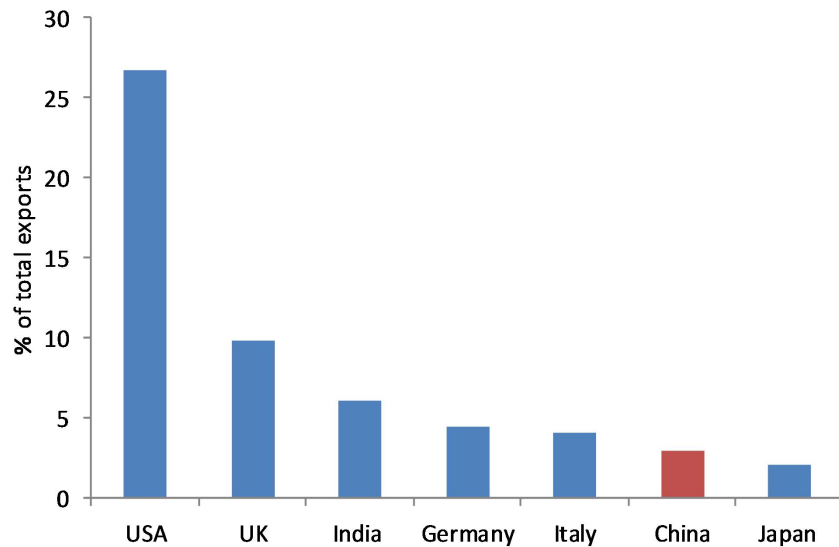
China became a major source of development finance from 2006



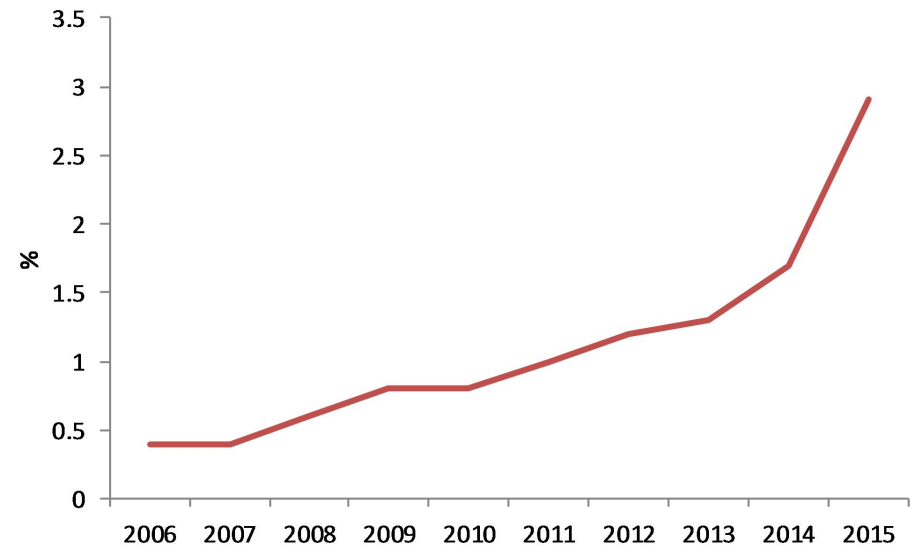
Source: CBSL data.

But, role as an export partner is limited

Only 6th largest export market for SL in 2015



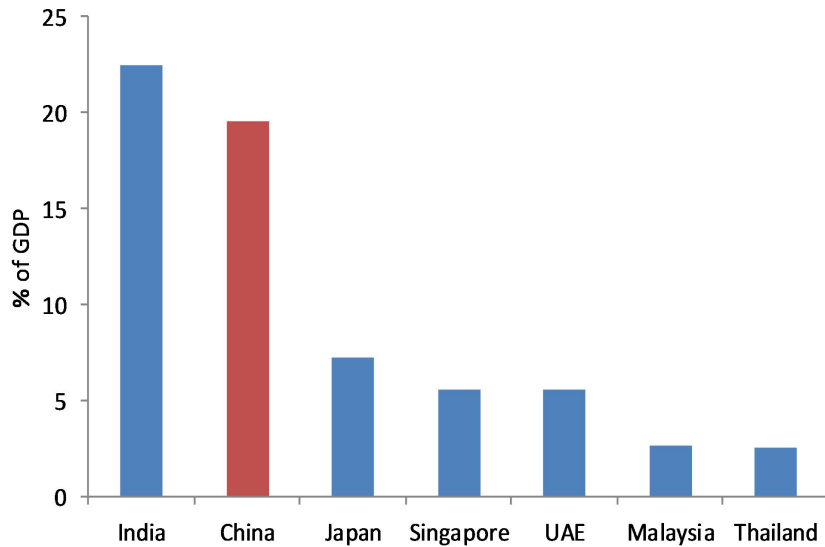
However, China's export share rising rapidly



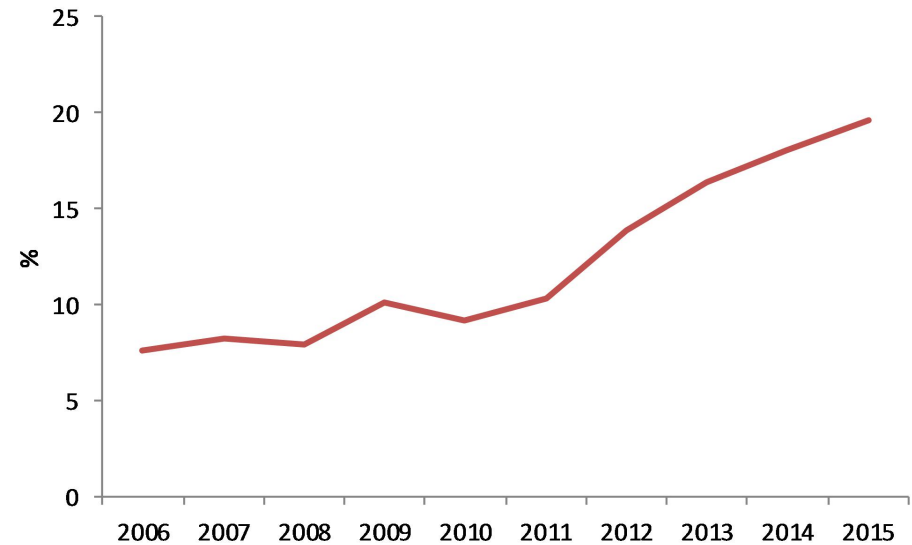
Source: CBSL data

China is a significant source of imports

2nd largest source of imports for SL in 2015



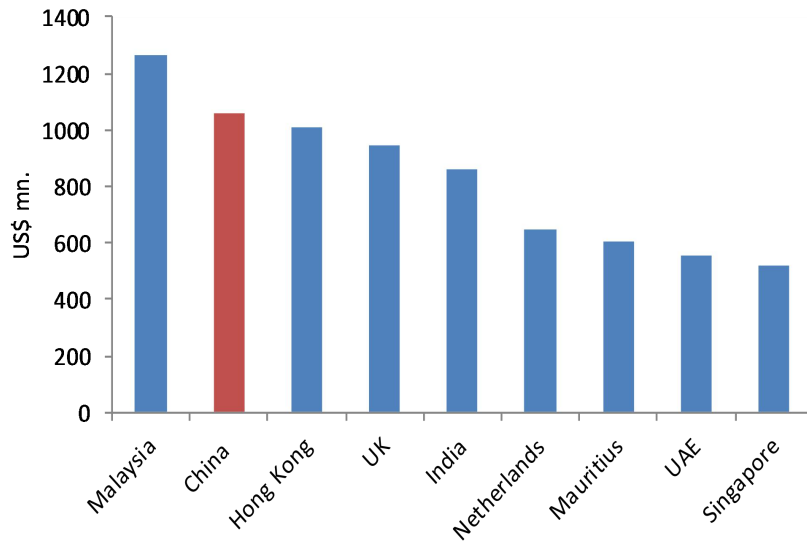
Share of imports from China also rising rapidly



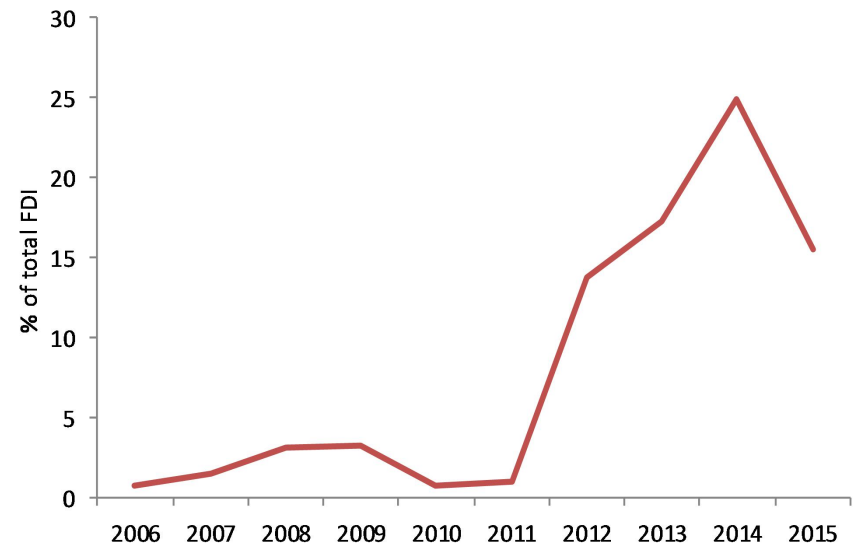
Source: CBSL data.

Not a major source of FDI until recently

China now stands as 2nd largest source of FDI during 2006-2015



But increase is recent and related to only 1 or 2 major projects



Source: BOI data.

Strengthening of China-SL relations post-2006

For China

SL's strategic location important for global maritime trade – OBOR initiative



Strengthening of China-SL relations post-2006

For Sri Lanka

2006-09, SL govt. engaged in military defeat of separatist movement

China provided political/economic assistance

- SL govt. under pressure from US/EU on allegations of human rights violations

China funded many large infrastructure projects in SLs post-war development initiatives

- E.g., Colombo Port City Project, Hambantota Port, etc.

China-SL free trade agreement talks initiated in 2014



But, domestic and geopolitical challenges

Sri Lanka's growing economic relations with China viewed with some concern

- Concerns regarding terms/conditions of Chinese funded infrastructure projects, environment consequences, etc.
- Accumulation of debt, FDI not visible in trade/high value services

Sri Lanka's foreign policy criticized as tilting too much towards China

- SL govt. relations with US/EU in conflict over issues of human rights violations
- Some economic sanctions imposed

Concerns on part of India as well

- Colombo Port City Project with freehold right of land to China

Post 2015 China-SL relations still evolving

In January 2015, change of govt. in SL signaled shift in foreign policy

- New govt. sought to ‘repair’ relations with US/EU and ‘better balance’ China-India relations

Early signs on China-SL relations not positive

- Many Chinese funded projects were temporarily halted, such as Colombo Port City Project

However, by mid-2015, a clear reversal by SL govt. with regards to China

- Economic downturn in SL a key factor

Going forward

Colombo Port City Project was given nod to proceed in March 2016

- Amendment from freehold of land to lease holding

Negotiations on China-SL FTA resumed in 2016

- Alongside trade deals with India and Singapore; SL attempting to position itself as gateway to both key regional markets

SL govt. has offered EPZ exclusively to China, alongside Chinese constructed port in Southern Sri Lanka

- 80% equity stake of both Southern port and (Chinese built) international airport offered to China

Lessons learnt

The importance of China as an economic partner for emerging Asian economies, irrespective of geopolitical constraints

For China too, benefits to be had by more transparency when providing development finance to governments

Financing infrastructure is important, but needs to be accompanied by broader engagements in provision of markets, FDI, etc.

In dealing with smaller South Asian economies, balancing geopolitical interests vital



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