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CHINA'S ECONOMIC INFLUENCE IN SOUTH ASIA: A CASE STUDY OF SRI LANKA[1]

Abstract. China's economic influence in South Asia, primarily through initiatives like the Belt and Road Initiative (BRI), has prompted significant analysis of its impact on the region's economies. This research specifically examines China's expanding economic presence in South Asia, driven by the ambitious BRI. It focuses on China's strategic partnerships with regional countries, emphasizing bilateral economic relations, trade dynamics, investments, and associated debt implications. The study uses Sri Lanka as a case study to analyze the intricate dynamics of China's economic involvement in South Asia. Despite concerns about trade imbalances, competition with local industries, and debt sustainability, research indicates that debts owed to Chinese creditors are not solely tied to Chinese investments. Sri Lanka's experience, illustrated by the leasing of the Hambantota port to a Chinese firm, highlights the nuanced nature of these relationships. Contrary to misconceptions, this transaction did not worsen Sri Lanka's debt burden but instead provided crucial financial resources for other economic priorities. Despite challenges like the COVID-19 pandemic and geopolitical tensions, the leasing of the Hambantota port has yielded promising results, presenting opportunities for economic diversification and growth in the Sri Lankan economy. As global conditions stabilize, the enduring effects of China's economic influence in South Asia, including investment

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trends and debt dynamics, underscore the evolving landscape of regional economic cooperation and development.

Keywords: China, South Asia, Sri Lanka, FDIs, debt dynamics.

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Экономическое влияние Китая в Южной Азии (на примере Шри Ланки)

Аннотация. Экономическое влияние Китая в Южной Азии, осуществляемое преимущественно через инициативы вроде «Пояса и пути» (ИПП), вызвало к жизни серьезный анализ его воздействия на экономики стран региона. В настоящей работе конкретно рассмотрено расширение китайского экономического присутствия в Южной Азии в рамках ИПП. Основное внимание уделено стратегическим партнерствам КНР со странами региона, особенно в контексте двусторонних экономических связей, динамики торговли, инвестиций и соответствующих проблем задолженности. На примере Шри Ланки проанализирована сложная динамика участия Китая в экономике Южной Азии. Несмотря на опасения, связанные с дисбалансом в торговле, конкуренцией с местными производителями и долговой нагрузкой, исследования показывают, что задолженность перед китайскими кредиторами не была связана лишь с китайскими инвестициями. Опыт Шри-Ланки, как в случае со сдачей порта Хамбантота в аренду китайской компании, демонстрирует тонкости этих отношений. Вопреки распространенным заблуждениям, данная сделка не увеличила долгового бремени Шри-Ланки, но, напротив, обеспечила ее финансовыми ресурсами, остро необходимыми для решения других приоритетных экономических задач. Несмотря на такие проблемы, как пандемия *COVID-19* и геополитическая напряженность, аренда порта Хамбантота принесла многообещающие результаты, создавая возможности для диверсификации и роста экономики Шри-Ланки. По мере стабилизации мировой обстановки долгосрочные эффекты китайского экономического влияния в Южной Азии, включая динамику инвестиций и задолженности, изменяют пейзаж экономического сотрудничества и развития в регионе.

Ключевые слова: Китай, Южная Азия, Шри-Ланка, прямые иностранные инвестиции, динамика задолженности.

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Introduction

South Asia has emerged as a focal point of global attention due to its robust economic growth and potential to shape the future of the world economy. With an impressive annual growth rate of 6 %, the region is positioned as one of the fastest-growing economic regions globally. Comprising nine countries, including prominent members of the South Asian Association for Regional Cooperation (SAARC) such as India, Bangladesh, and Pakistan, South Asia also includes Myanmar, which maintains significant economic ties with China despite its political isolation.

Of particular interest within South Asia is China's expanding economic influence, driven largely by its ambitious Belt and Road Initiative (BRI). This research focuses on examining China's strategic cooperation with countries in the region, with a specific emphasis on its bilateral economic relations, trade dynamics, investments, and the associated debt implications.

Within this context, Sri Lanka stands out as a compelling case study due to its substantial engagement with Chinese investments, particularly in infrastructure projects. The analysis delves into the development potentials and risks associated with Sri Lanka's heavy reliance on Chinese foreign direct investment (FDI), with a spotlight on the Hambantota port project. Moreover, the assessment encompasses an examination of Sri Lanka's considerable external debt, which has sparked debates regarding the nature of China's engagement in the region. Critics, including the US State Department, have characterized China's approach as “debt trap diplomacy” or even “predatory diplomacy,” highlighting concerns over potential economic vulnerabilities and geopolitical implications.

By scrutinizing the intricacies of China's economic engagement in South Asia, particularly through the lens of the Sri Lankan case study, this research aims to provide valuable insights into the opportunities and challenges posed by China's growing presence in the region.

China's approach to South Asia: strategy and economic dynamic

The position of South Asia in Chinese international strategy

The significance of South Asia in the realization of China's international economic goals and ambitions is continually increasing. China's vision for relations with the region became evident in 2013 when Xi Jinping announced the priority of a proactive form of "periphery diplomacy," also known as "neighbourhood diplomacy." According to Xi Jinping [2014, p. 326], "When dealing with neighbouring countries, we need a multidimensional perspective that extends beyond the immediate boundaries of time and space."

Faisal and Khan [2022], analysing various Chinese international strategies, observe that South Asia held a prominent place in earlier Chinese international strategies. These include the South-South initiatives from the late 20th century, followed by the Go West and March to the West strategies in the 2000s, where South Asia emerged as a natural region for expanding China's influence. With this in mind, we examine China's approach to the region in the context of enhancing relationships under new circumstances, rather than establishing them on entirely new foundations.

China's perception and publicly proclaimed strategy of relations with its neighbours include provisions such as peaceful coexistence, regional security, peace and stability, economic development, anti-hegemonic multilateral political systems, and regionalism [Nisar, 2019]. This concept reflects China's aspiration to transform neighbouring areas into a "community of shared destiny" [Callahan, 2016], marking a departure from Deng Xiaoping's strategy and China's longstanding prioritization of relations with major powers. This shift is one of the effects of China's new development concept of Dual Circulation, aimed at safeguarding its economy from external shocks resulting from instability in relations with the USA and the EU [Stanojević, 2022].

While China undoubtedly seeks to integrate neighbouring countries into a Sino-centric network of economic, political, cultural, and security relations [Mitchell, 2018], it emphasizes inclusivity and win-win cooperation. Managing emerging power asymmetries between China and its neighbours is a key task of China's neighbourhood policy. China's strategy towards its neighbours has evolved from mere engagement to proactive efforts to shape the regional order. These efforts primarily involve institution building, regional integration through the Belt and Road

Initiative, strategic partnerships, and normative commitments [Stanojević and Zakić, 2023].

Several key aspects characterize China's relations with its neighbours, as highlighted by various authors analysing China's official strategy:

1. Economic Integration: China prioritizes deepening economic, trade, and financial ties with its neighbours. While this aspect is not always explicitly emphasized in China's official neighbourhood diplomacy, it forms a crucial component. Free trade agreements (FTAs) play a central role in strengthening these relationships [Oswald and Eckhardt, 2022]. China's economic cooperation extends beyond neighbouring relations, as it maintains free trade agreements with numerous countries, including least developed nations, across various regions.

2. Relations with Regional Powers: China places significant emphasis on fostering special relationships with key regional powers neighbouring its borders, such as Russia, Japan, and India. These bilateral ties serve as vital links between China's neighbourhood diplomacy and its broader foreign policy objectives, particularly in the realm of great power diplomacy.[1]

3. Mediation and Negotiation: China actively engages in diplomatic mediation processes within the neighbourhood, striving to position itself as an independent and credible mediator capable of resolving conflicts. This proactive stance is evident in its involvement in international tensions and conflicts, notably in Myanmar, Afghanistan, and North Korea.[2]

4. Participation in Multilateral Institutions: China actively participates in and promotes various multilateral institutions in its neighbourhood, such as the Belt and Road Initiative, BRICS, and the Shanghai Cooperation Organization (SCO), among others. By leveraging these platforms, China aims to enhance its regional leadership and address common challenges through cooperative approaches [Wu et al., 2022]. While China asserts that these institutions are not alliances, some Western analysts view them as tools for China to exert influence over neighbouring countries and align their actions with Chinese preferences.[3]

Through various initiatives and strategies, China has endeavoured to strike a balance between fostering relations with smaller countries in the region and managing its competitive dynamic with India, whose political and

[1] Stokes, J. (2020). *"China's Periphery Diplomacy: Implications for Peace and Security in Asia"*, United States Institute of Peace, Special Report No. 467.

[2] Ministry of Foreign Affairs PRC. 2019. "China's Foreign Policy in a Fast-Changing World: Mission and Responsibility," speech by Le Yucheng, July 8. URL: www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1679454.shtml

[3] Stokes, J. (2020). ....

economic influence in the area is pivotal. Concurrently, China has sought to navigate its relationship with the USA, which maintains its own security arrangements in the region, notably in Afghanistan and Pakistan.

South Asia emerged as an optimal initial focus for China, primarily due to its strategic geographical position as China shares borders with five countries in the region, and it lies along the ancient Silk Road routes. Besides, China has strong military ties with Bangladesh and Sri Lanka. Additionally, South Asian countries possess attributes that make them attractive for foreign investment, including large populations and relatively rapid economic growth and development. Another key factor driving China's interest in the region is the inadequate intra-regional connectivity and insufficient infrastructure, which hinder the region's integration with the global economy, impeding further growth [Stanojević and Zakić, 2023].

Exploring China's Economic Engagements Across South Asia: An Overview

In 2013, when China expressed interest in developing ports, roads, and railways, South Asian countries responded positively and swiftly, becoming early participants in the Belt and Road Initiative. Since that time, China has steadily escalated its political and economic involvement in the region through projects initiated under the Belt and Road Initiative. Notable initiatives in South Asia comprise the China-Pakistan Economic Corridor, the Bangladesh-China-India-Myanmar Economic Corridor, the Trans-Himalayan Economic Corridor, and bilateral collaborations with Bangladesh, Sri Lanka, and the Maldives as part of the 21st Century Maritime Silk Road [Guo et al., 2019]. In the South Asian region, there are numerous successful investment projects in all countries, with the exception of Bhutan. The volume of Chinese investments placed in these countries in the period 2005—2023. is about 160 billion USD, with more than 40 % of the total amount for the region invested in Pakistan (table 1).

The primary focus of investment in South Asian countries has been the energy sector, representing more than half of the total investments in the region (Table 1). Following closely are the transport and metal industry sectors, albeit with significantly lower values. Not all sectors are included in the table, as some pertain to individual investments in one or two countries of the region, such as healthcare in India and finance in India and Bangladesh.

Chinese investments are commonly associated with credit from Chinese banks. China's favourable loans and their accessibility have established it as one of the region's largest creditors. According to the latest available data for 2022, India, Afghanistan, and the Maldives have no outstanding debts to Chinese creditors. Conversely, Pakistan, Myanmar, and Sri Lanka have the

Table 1. **China's FDI in South Asia countries 2005—2023 (million USD)**

Country/ sector	Total	Energy	Transport	Tech.	Real Est.	Metals	Tourism
India	35692	16634	1911	2261	660	3212	1274
Pakistan	65261	47142	12442	2734	870	240	230
Bangladesh	30972	12292	9211	1132	2364	2135	/
Sri Lanka	14415	1762	5614	250	2314	/	540
Nepal	3982	1462	1272	170	680	/	/
Myanmar	10324	4900	1700	380	830	2392	/
Maldives	1372	/	800	/	/	/	430
Afghanistan	3284	400	210	/	/	2520	/
South Asia	165302	84592	33160	6927	7718	10499	2474

Source: The China Global Investment Tracker, American Enterprise Institute. URL: https://www.aei.org/china-global-investment-tracker/ (accessed: February 16, 2024).

Table 2. **Debts of South Asian countries (billion USD)**

Country	Total debt	Debt to China	Share
India	616.86	0.00	0.0
Pakistan	126.94	26.60	21.0
Bangladesh	97.01	6.05	6.2
Sri Lanka	58.71	8.84	15.1
Nepal	9.14	0.26	2.9
Myanmar	12.53	2.46	19.6
Maldives	4.04	0.00	0.0
Afghanistan	3.39	0.00	0.0

Source: World Bank International Debt Statistics, 2023. URL: https://www.worldbank.org/en/programs/debt-statistics/ids (accessed: February 16, 2024).

largest share of debts owed to Chinese creditors, at 21 %, 20 %, and 15 %, respectively (Table 2).

In terms of trade, South Asia exhibits a predictably significant deficit with China. Chinese imports from these nations totalled 22 billion USD in 2022, while exports amounted to a staggering 175 billion USD (Figure 1). What's particularly noteworthy is the sustained and rapid growth in Chinese exports to the region, with the exception of 2020 due to the Covid-19 pandemic, while imports from these countries have remained stagnant (Figure 1).

In addition to trade and investment, including loans for infrastructure projects, South Asian countries are closely linked to China's manufacturing and supply chains. China's manufacturing sector plays a vital role in the supply of goods and components to countries in the region. Chinese compa-

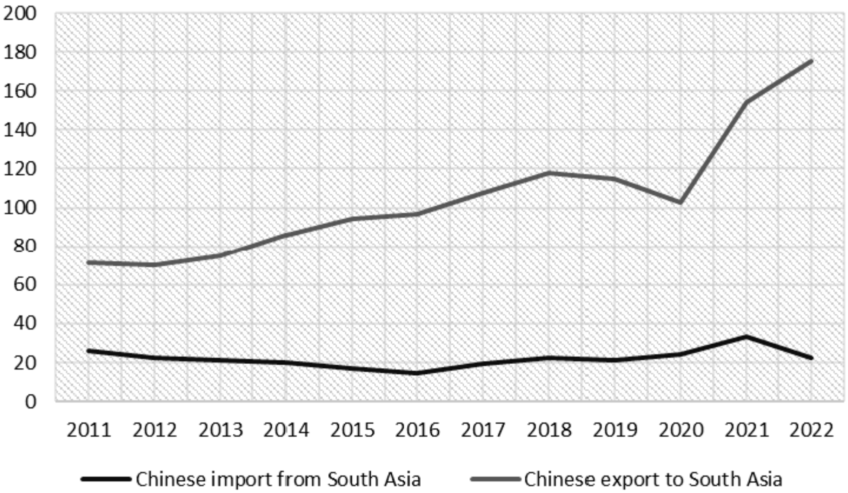


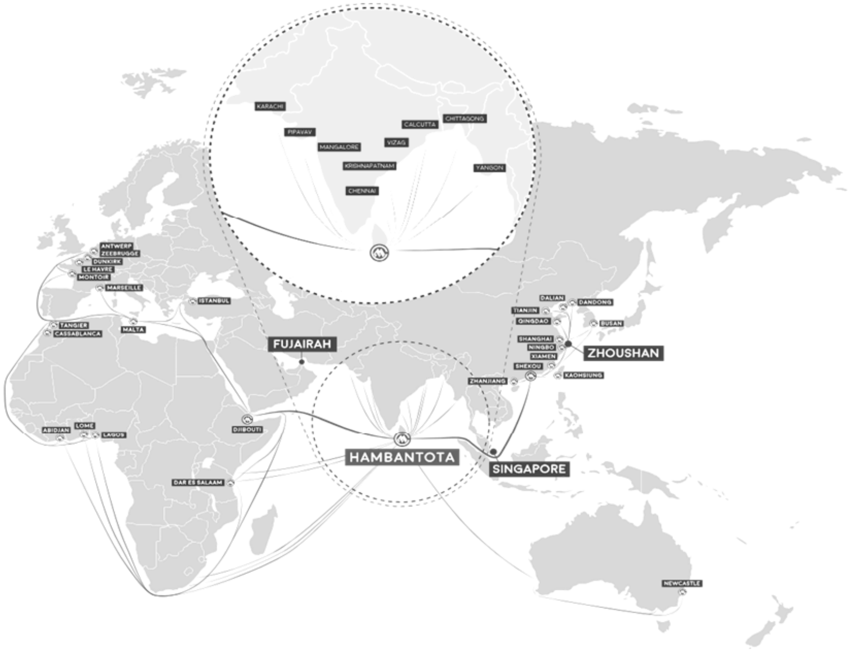
Figure 1. Trade of China and South Asia 2011—2022 (billion USD)/
Source: International Trade Center — ITC. 2023. Trade map. www.trademap.org

nies have set up manufacturing facilities in South Asia, taking advantage of the region's lower labour costs and market access.

Chinese Investment in Sri Lanka: Between Development Initiatives and Debt Trap Dynamics

Sri Lanka holds strategic importance for China both globally and regionally, with the two countries enjoying a close and longstanding partnership spanning over a thousand years. China has provided extensive support to Sri Lanka, including infrastructure development, economic aid, diplomatic assistance, and even military aid during the internal conflict against the Tamil Tigers over the past few decades. This partnership has remained steadfast despite fluctuations in the international landscape and changes in Sri Lanka's ruling parties. In recent years, bilateral relations have significantly strengthened, guided by the comprehensive framework of the China-Sri Lanka Partnership for Comprehensive Cooperation, Sincere Mutual Support, and Eternal Friendship [Manoharan, 2022, p. 161].

China's presence in Sri Lanka gained broader attention due to its investment in the development of the Hambantota International Port, one of the largest infrastructure projects under the Belt and Road Initiative. Given Sri



Map 1. Hambantota port.

Source: Hambantota International Port Group. CONNECTIVITY. URL: http://www.hipg.lk/about-us/connectivity

Lanka's strategic location at the southern end of the South Asian subcontinent in the Indian Ocean, the development of port infrastructure is a logical choice to bolster the country's economic growth. Positioned at the southern tip of Sri Lanka, the natural harbour of Hambantota holds special strategic significance (see the Map 1). The port serves as a crucial node on maritime routes connecting the Middle East, Europe, and Africa to East Asia, located just 10 nautical miles from key international sea routes linking China with the Middle East and Africa.

The construction and development of the port lasted for ten years, from 2008 to 2018, involving a cumulative investment of 1.3 billion USD, with 96 % financed by the Chinese Exim Bank through a substantial number of loans provided under highly favourable conditions.[1]

[1] CHEC, China Harbor. Hambantota Harbor. URL: www.chec.bj.cn/cn/ssbl/gccbs/gk/202208/t20220803_8212.html

Undoubtedly, Chinese investment has played a pivotal role in advancing Sri Lanka's infrastructure, particularly in the construction and expansion of port facilities, thereby boosting their capacity and efficiency. The Hambantota Port Development project has played a significant role in modernizing Sri Lanka's maritime infrastructure. Spanning an area of 1,800 hectares, Hambantota stands as the largest port in South Asia. Its components include various general and specialized terminals, two piers, breakwaters, a 40-hectare artificial island, port warehouses, auxiliary structures, and more. Once fully operational, the port is expected to handle approximately 20 million TEUs per year.[1] By comparison, Sri Lanka's largest port at the time, Colombo, had a capacity of only 4.5 million TEUs, and originally, the port aimed to alleviate congestion at the Port of Colombo.[2]

Since the management transition to a Chinese company 2018, the operations at the Hambantota port have expanded significantly. The company has introduced various additional activities, including ventures into the oil and gas sector, cement handling, and maritime services within the port. Moreover, several supporting initiatives have been launched in the port vicinity, including the establishment of a free economic zone for shipbuilding, repair, and storage (valued at an additional 550 million USD), along with storage facilities and other amenities. Future plans encompass the development of facilities for cement, fertilizer, vehicle assembly, and food processing and packaging.[3] Enhanced port infrastructure can stimulate exports, facilitate transshipment traffic, and bolster connectivity with global markets. Additionally, the development of port cities and associated infrastructure can spur tourism and commercial activities, catalysing growth in sectors such as hospitality, retail, and logistics. Infrastructure for gas distribution and services related to import-export operations has been developed to support these endeavours.[4]

However, the Hambantota port struggled to generate sufficient revenue in its initial years. According to submissions to a parliamentary committee, the port incurred accumulated losses of approximately 300 million USD by the end of 2016.[5]

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1 Hambantota International Port Group. URL: http://www.hipg.lk/about-us/hipg

2 Ibid.

3 Hambantota International Port Group. URL: http://www.hipg.lk/about-us/hipg

4 Ibid.

5 Moramudali, U. 2020. "The Hambantota Port Deal: Myths and Realities", The Diplomat, January 01, 2020, URL: https://thediplomat.com/2020/01/the-hambantota-port-deal-myths-and-realities/

In 2017, China and Sri Lanka reached an agreement for a debt swap, resulting in a 99-year lease to China for the port's operation. Consequently, the Chinese private company China Merchants Port Holdings emerged as the majority shareholder of the Hambantota International Port Group, responsible for managing and operating the port. Since the project's completion in 2018, the port's activities have operated under a public-private partnership between the Government of Sri Lanka and China Merchants Port Holdings.[1]

This project garnered significant negative attention from the international community and experts, particularly within the context of concerns over excessive borrowing from Chinese banks. Often cited as a prime example of China's "debt trap diplomacy," the project has faced criticism, with Western media outlets, prompted by the US State Department, labelling it as "predatory".[2] However, the genesis of this negative campaign can be traced to the ongoing rivalry between the USA and China [Stanojević, 2020], with a certain apprehension from the USA regarding China's military and naval capabilities, beyond purely commercial concerns.

Based on comprehensive data from official Sri Lankan sources, the notion of a debt trap orchestrated by China to seize control of the port in Hambantota appears largely unfounded. Instances of poor assessment regarding the repayment capabilities of governments in small states are not uncommon. However, in Sri Lanka's case, inadequate financial evaluations were not exclusive to the Hambantota port project. When accusations of falling into a debt trap emerged in 2017, assessments of Sri Lanka's creditworthiness by reputable agencies—Standard & Poor's, Moody's, and Fitch Ratings—indicated no imminent risk of over-indebtedness in 2017 [Hurley, Morris, Portelance, 2018]. This is corroborated by Central Bank data, which reported foreign debt as a percentage of GDP at 59 % in 2017 and this debt had accumulated over several decades preceding the influx of Chinese loans.[3] Successive Sri Lankan governments continued to borrow from international markets, even in the face of persistent fiscal and current account deficits. This pattern created a vicious cycle wherein debt repayments became increasingly burdensome as they came due.

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[1] Hambantota International Port Group....

[2] US Department of State, Secretary Michael R. Pompeo, Remarks to the Press, 28 October 2020. URL: https://2017-2021.state.gov/secretary-michael-r-pompeo-and-sri-lankan-foreign-minister-dinesh-gunawardena-at-a-press-availability//index.html

[3] Central Bank of Sri Lanka. 2019. Annual Report 2019. URL: https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-2019

According the World bank data the share of external debt in GNI (Gross national income) was the same for a years before 2017 between 51 and 55 %.[1] Sri Lanka's debt to China was relatively modest, even for an underdeveloped economy, and considerably smaller and newer—thus less pressing for repayment—compared to debts owed to other creditors and unrelated to Chinese loans. In 2017, the debt to Chinese creditors stood at 10 % of Sri Lanka's total debt, equivalent to 5 billion USD out of 51 billion. USD[2] Of the 5 billion USD owed to various Chinese entities, the debt associated with Sinohydro and China Communications Construction for the construction of the Hambantota port amounted to just 1.12 billion USD, representing a mere 5 % of Sri Lanka's total annual external debt payments.

Figure 2 illustrates these proportions and provides context for Sri Lanka's debt related to the construction of the Hambantota port.

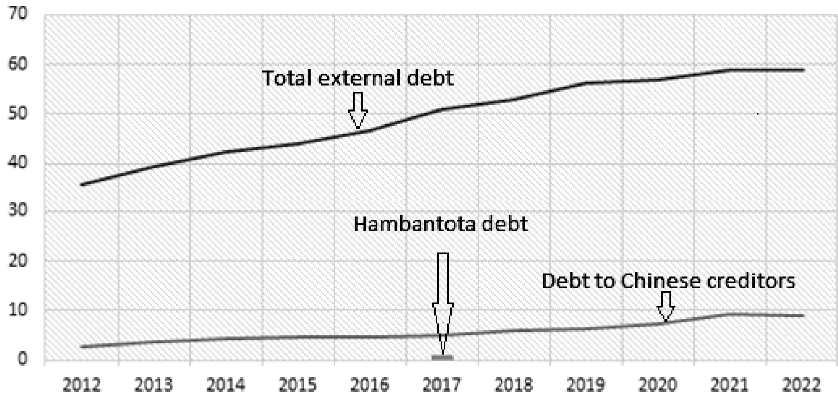

Figure 2. External debt of Sri Lanka (billion USD).
Source: authors` compilation, World Bank International Debt Statistics, 2023. and HIPG

It is therefore improbable that the Sri Lankan government would have made concessions contrary to its interests solely due to the 5 % annual loan repayments. Furthermore, it seems even less plausible that the government would have been unable to assess its ability to repay the 1.12 billion USD debt. Notably, each of these loans carried a grace period and a repayment period of 15 years or more, implying that some repayments had not commenced by 2018 when the port was transferred to Chinese partners.

[1] World Bank International Debt Statistics, 2023. URL: https://www.worldbank.org/en/programs/debt-statistics/ids

[2] Ibid.

The Hambantota port deal should not be misconstrued as a debt-equity swap because it did not involve any debt cancellation. The Sri Lankan government remains obligated to repay loans acquired from the Exim Bank of China for the construction of the port. Actually, the 1.12 billion USD received from the deal was not used to settle the port construction debt, but it was directed towards bolstering the country's foreign reserves and addressing some short-term foreign debt obligations. The funds obtained from the Hambantota port deal were predominantly allocated to address balance of payment (BOP) challenges, particularly stemming from the escalating costs of debt servicing. This underscores that the transaction did not alleviate Sri Lanka's debt burden but rather provided temporary relief for pressing financial obligations.

According to analysis by experts at the Central Bank of Sri Lanka, the surge in debt during this period was attributed to currency devaluation and excessive infrastructure investments. Public sector investments, particularly in infrastructure such as roads, telecommunications, electricity, ports, airports, and water supply, surged to approximately 6.5 % to 7 % of GDP during the period under review, compared to less than 3 % in preceding periods for similar purposes.[1] This phenomenon is unrelated to the purported Chinese debt trap but rather stems from the aftermath of the 26-year conflict with a terrorist insurgency that ended in 2009, leaving the country's infrastructure severely damaged and necessitating extensive reconstruction funded through loans.

From 2021 to 2023, Sri Lanka's economy experienced significant volatility and hardship. In 2021, the GDP contracted by 3.6 %, reflecting the adverse impacts of the COVID-19 pandemic on critical sectors like tourism and exports. By 2022, the economic situation worsened with GDP shrinking by 8.4 %, exacerbated by severe shortages of essential goods and political instability. The country's foreign debt reached alarming levels, exceeding 50 billion USD, leading to a historic default on its international debt obligations in May 2022.[2] Efforts to stabilize the economy in 2023 saw some progress, but GDP growth remained modest, hovering around 1—2 %, as the government struggled to implement necessary reforms and secure additional international assistance to manage its debt crisis.

[1] Nanayakkara, D. 2022. “Debt Management and Debt Sustainability — The Sri Lankan Experience”, UNCTAD project. South-South Integration and the SDGs: Enhancing Structural Transformation in Key Partner Countries of the Belt and Road Initiative. UNCTAD/BRI PROJECT/PB 05

[2] World Bank International Debt Statistics, 2023. URL: https://www.worldbank.org/en/programs/debt-statistics/ids

Although Sri Lanka earns revenue through its stake in the Hambantota International Port Group, the deep economic crisis has hampered the port's income potential. The untapped potential of the port lies in its capacity to drive Sri Lanka's economic growth by attracting foreign investment, generating employment opportunities, and fostering trade.

Conclusion

The increasing involvement of China in the economies of small South Asian countries has undoubtedly brought about both opportunities and challenges. While China's initiatives have enhanced connectivity and facilitated economic integration within the region and beyond, concerns regarding trade imbalances, competition with local industries, and debt sustainability persist.

Contrary to some perceptions, research indicates that debts to Chinese creditors are not inherently linked to Chinese investments. Notably, several South Asian countries receiving Chinese FDIs have varying levels of debt owed to China, suggesting a nuanced relationship between investment inflows and debt accumulation. In the case of Sri Lanka, the transfer of a portion of the Hambantota port to a Chinese company was misconstrued as a debt cancellation, when in fact, it was a leasing arrangement. Despite initial scepticism, this transaction did not exacerbate Sri Lanka's debt burden but instead provided much-needed financial resources for other critical economic purposes.

However, the negative portrayal of Chinese investments by certain countries and international actors has had repercussions. The influence of this negative campaign has led some neighbouring countries to reconsider their engagement with China under the Belt and Road Initiative, exacerbating Sri Lanka's challenges in accessing alternative sources of credit. Consequently, Sri Lanka found itself in a cycle of increasing reliance on Chinese creditors, fuelled in part by the perceived risk aversion of other lenders.

Despite these challenges, the leasing of the Hambantota port to CM Port has demonstrated positive outcomes. The expansion of port operations presents significant opportunities for economic diversification, job creation, and overall growth in the Sri Lankan economy. However, external factors such as the COVID-19 pandemic and geopolitical tensions have hindered the realization of these opportunities, highlighting the vulnerability of Sri Lanka's economy to external shocks.

Nevertheless, the long-term prospects for Sri Lanka's growth and development, facilitated by Chinese investment in the Hambantota port project, remain promising. As global conditions stabilize and economic activities resume, the port's potential to drive economic growth and serve as a catalyst for development will likely be realized, underscoring the enduring significance of Chinese investments in shaping Sri Lanka's future trajectory.

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