

## Analysis of bilateral trade between Sri Lanka and China

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### Abstract

Focusing on Sri Lanka's opportunities and challenges, this study examines the expanding commercial ties between Sri Lanka and China. Qualitative and quantitative research methods were used for the analysis that follows. Critical discourse analysis and description statistical approaches were used to analyze the quantitative and qualitative data, respectively. Texts, tables, and illustrations were used for conveying the facts. According to the study, Sri Lanka has benefited greatly from its deep economic ties with China. As a hub of China's Maritime Silk Road, Sri Lanka has also prospered strategically through the 'Pearl of Pearls' strategy. China has emerged as a Sri Lankan export market, a source of foreign investment, a country of origin for goods at reasonable prices, and a country that provides livelihood for the tourism sector. When Sri Lanka faced overwhelming needs, China stepped in with exceptional military and diplomatic support. Opportunities and obstacles are beautifully balanced in their business relationship. China's growing influence in Sri Lanka has proven problematic, leading Sri Lanka to forge strategic alliances with an aggressive India. Burning problems in the economy include trade imbalances, high debt loads, and the pointless search for Chinese capital.

**Keywords:** International Trade; Investment; Sri Lanka; China; Debts

### 1. Introduction

China and Sri Lanka have shared a historical concept of a bilateral relationship that has been bound by fine threads and awakened by peace for centuries. Strong commercial contacts along the Coastal Silk Route and extensive cultural and intellectual exchanges helped to strengthen ties. In January 1950, Sri Lanka became the first South Asian nation to formally recognize the People's Republic of China, beginning the flowering of friendship. Through the historic Rubber-Rice Agreement of April 1952, Sri Lanka supplied rubber to China, which in turn became a traditional obligation under a commercial exchange agreement to obtain rice from China. The People's Republic of China signed it as one of its first accords against a non-communist nation. On February 7, 1957, the two nations formalized their diplomatic relationship by establishing resident missions in each other's major cities. Following the formalization of diplomatic ties, both nations moved to enhance their bilateral ties in the political, economic, commercial, and cultural spheres. [1] [2].

The robust bilateral relations between China and Sri Lanka, which were characterized by regular high-level visits and discussions, exploded as a golden point in history. The historical relations between the People's Republic of China and Sri Lanka, which is engaged in a socialist journey, are introduced with a special golden thread called China-Sri Lanka Relations. There is a Sri Lankan mission in Beijing and a Chinese embassy in Colombo. The two nations have deep-rooted historical and cultural links that date back several hundred years. China and Sri Lanka have always had close diplomatic connections, notably under a government led by the Sri Lanka Freedom Party. Two deals were struck by the two parties to improve their fiscal cooperation. As a consequence of Mahinda Rajapaksa's pro-China posture, ties between the two nations improved during Rajapaksa's presidency of Sri Lanka. A total export value of \$14.1 billion was garnered by Sri Lanka in 2021, securing the nation the 83rd position in global export rankings. The exports of Sri Lanka have changed by

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\$2.88 billion during the previous reporting years (five), rising from \$11.2 billion in 2016 to \$14.1 billion in 2021 [3] [4] [5].

Today, China stands as Sri Lanka's foremost trade partner. Despite an unfavourable trade balance, Sri Lanka gained \$4.2 billion in 2017. The two countries have benefited from this bilateral relationship, which has a trade volume of 4.2 billion. In May 2013, the two countries agreed to establish a joint task force to study the feasibility of a China-Sri Lanka Free Trade Agreement (FTA) and to promote exports to China, marking the second Memorandum of Understanding (MOU) on Trade and Economic Cooperation. The ongoing FTA negotiations between the two countries, which have been in the historical relationship for 50 years, emphasize the indispensability of trade relations. Through this study, the main objective is to investigate the trade relations between China and Sri Lanka. [6] [7].

As per the Asian Development Outlook (ADO) 2022 report, Sri Lanka's exports averaged 774.92 million USD from 2002 to 2023, peaking at 1,247.80 million USD in June 2022 and hitting an annual low of 251.30 thousand USD in April 2002. It has been written in economic history as a commercial performance. As shown in the Asian Development Outlook (ADO) 2022 reports, with the Covid-19 pandemic, Sri Lanka's gross domestic exports were -29% in 2020. After that, there was good momentum in the coming years. Therefore, this research report seeks to explore the historical ties between Sri Lanka and China while fostering future economic collaboration to enhance bilateral market potential. Identifying needs. Also, regarding the relationship between Sri Lanka and China, which has been heavily discussed in Sri Lanka, the existing and existing relationship between these two countries and the existing regional relationships are to be investigated [8] [9].

Five sections make up the organization of this research. Section 1 presents the study's background, problem statement, significance, and objectives. Section 2 cites the relevant prior studies, including the background literature review. Section 3 briefly describes the research methodology, conceptual framework, hypotheses, design, population and sample selection, data collection methods, and ethical considerations. Section 4 describes the data analysis, sample use, and statistical tools used to test the hypotheses. The 5<sup>th</sup> section (Conclusion) concludes with a summary of the study's main findings, suggestions, and limitations. These conclusions will be evaluated in light of the goals listed in the research's introduction part [10] [11].

## 2. Methodology

### 2.1. Methodological approach

This research employs a qualitative methodology incorporating comparative analysis of qualitative data, aiming to assess how global trade barriers impact Sri Lanka's trade dynamics. This study's qualitative phase entails collecting and analyzing data from secondary sources, including the United Nations Commission on Economic Cooperation and Development's (UNCTAD) databases and the World Bank's World Development Indicators. [10] [12].

### 2.2. Data Collection Process & Analysis Techniques

While secondary sources are used in data collection for this study, the main type of analysis used in this qualitative method thesis is comparative analysis. Data collected from various sources were compared and analysed to uncover patterns, trends, and anomalies in barriers to international trade faced by Sri Lanka. Textual data from reports, academic studies, and publications underwent qualitative analysis—including content and thematic methods—to identify trade barriers, assess trade imbalance impacts, and explore strategies to strengthen trade competitiveness. Important conclusions and insights about how technology affects trade barriers internationally were obtained through this method. [13] [14].

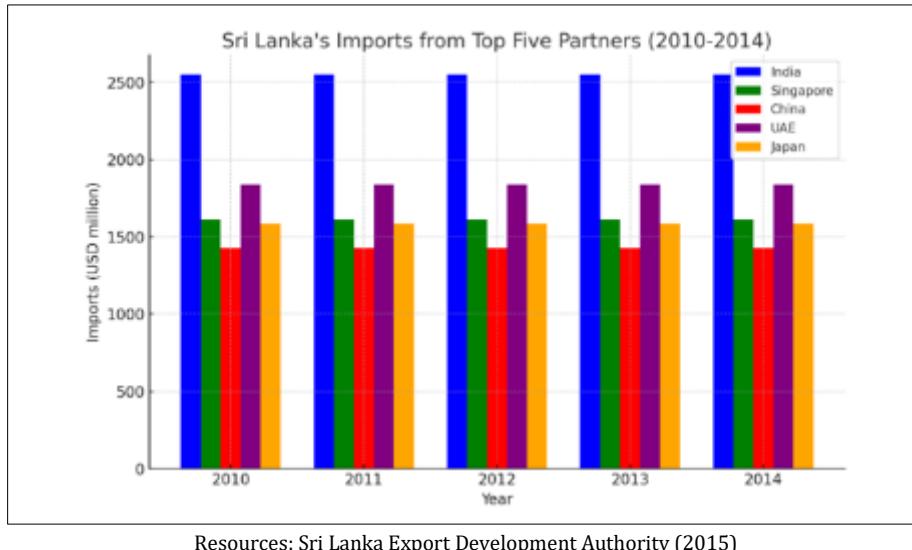
These secondary sources consist of various databases that provide in-depth understanding of international trade trends, the nature and extent of trade barriers, and their impact on Sri Lanka's trade competitiveness. The data required for this research was also compiled from additional sources:

Crucial trade data is provided by official government and statistical offices, such as the websites of Sri Lanka's Ministry of Commerce, Department of Census and Statistics, and Ministry of Finance, as well as international trade organizations like the IMF, UNCTAD, and the World Bank's WITS. Articles, studies, and findings from scholarly journals, World Developmental Indicators, the Global Enabling Trade Report, peer-reviewed scholarly studies with relevant theoretical frameworks, etc. The trade relationship between Sri Lanka and China shows an imbalance, with Sri Lanka importing more goods from China than it exports. Regarding this trade gap, the existing policies and various achievements in Sri

Lanka are discussed through various sources. Measures that can be taken to offset the trade deficit in Sri Lanka are also discussed here. [15] [16] [17].

### 3. Results

#### 3.1. Recent Developments in Sri Lanka's Top Five Trading Partners' Imports



**Figure 1** Recent patterns of imports from Sri Lanka's five leading trading partners

China is far more significant as a supplier to Sri Lanka than as a destination for exports. Specifically, in 2014, Sri Lanka sent approximately US\$173.5 million to China, which is a mere 1.5% of the nation's overall exports. Sri Lanka's modest exports to China and the dramatic increase in imports, especially after 2000, are seen in Figure 1. [18] [19].

Since the India-Sri Lanka Free commerce Agreement (ISFTA) went into effect, the overall amount of bilateral commerce has grown significantly. Between 2010 and 2011, the entire trade volume grew from US\$ 3,020 million to US\$ 4,919 million. This represents an increase of more than eight times compared to the figure of US\$ 658 million in 2000, when the FTA was implemented. [20] [21].

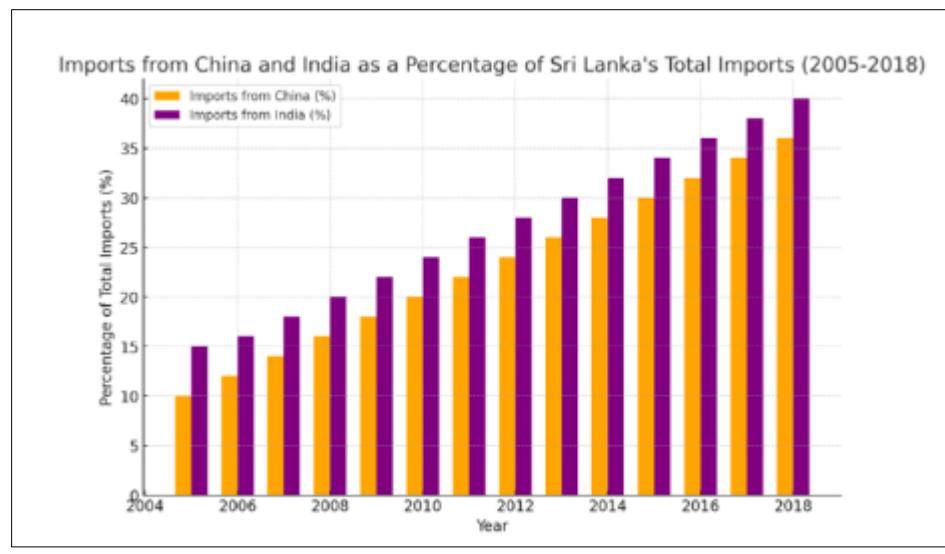
The 2012 volume of bilateral commerce, as reported by Sri Lankan Customs, was \$4.01 billion USD. In comparison to the same time in 2011, Sri Lanka's imports from India totaled \$3,483.74 million while the goods it exported to India totaled \$518.71 million. These figures represent declines of 19.51% and 1.91%, respectively. In 2012, India contributed 19.52% and 5.69%, for example, to Sri Lanka's international imports as well as exports. [22] [23].

#### 3.2. SL Chinese and Indian imports from 2005 to 2018

Despite a sharp rise in Chinese imports, Sri Lanka's exports to China are still only moderately active, leading to a growing trade deficit. When compared to 2005, the economic long-term gain in trade between Sri Lanka and China has increased from 2.5% to 4.4% in 2018. This directly accounts for more than 40% of the country's overall trade deficit. It's noteworthy to note that regardless of general declines in trade worldwide and a surge in protective measures in Sri Lanka, Chinese imports rose. [24] [25].

In 2005, Sri Lanka's imports were 36% of its gross domestic product (GDP), while China's imports were only 2.6% of its GDP. By 2017, the overall import-to-GDP ratio had dropped to 23.8%, in contrast to China, where it had increased to 4.8 percent. Even in the absence of a free trade agreement (FTA) between China and Sri Lanka, there was a significant increase in imports from China. This suggests that regular levies on Chinese imports may be eliminated by an FTA. [26].

In short, a Free Trade Agreement (FTA) has been in place between India and Sri Lanka since 2000, known as the India-Sri Lanka Free Trade Agreement (ISFTA). Even with the FTA, Sri Lanka's imports from India as a percentage of GDP have been oscillating about 5% since 2005 and have not increased much since then [27].



Resources: Data from Export Development Board.

**Figure 2** SL Imports from China and India 2005-2018

### 3.3. Exports from Sri Lanka to China

**Table 1** Products that Sri Lanka exports to China

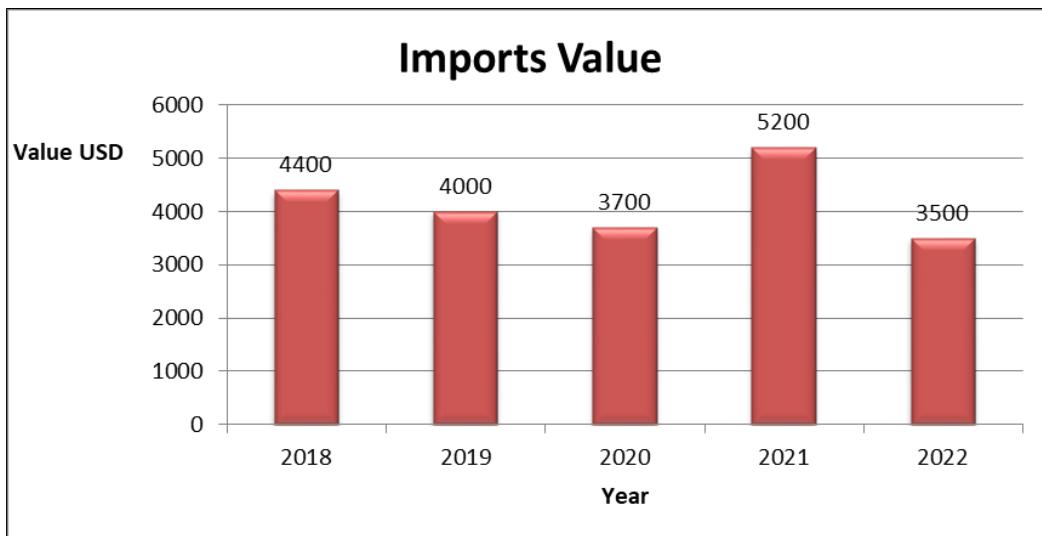
2017	2018	2019	2020	2021	Change in 2021 over 2020 (%)	Share in 2021 (%)	
Tea	47.16	44.90	47.06	54.64	57.99	6.13	31.43
Apparel and clothing accessories	32.72	33.51	43.14	47.84	51.02	6.64	27.66
coconut (coir) Molded products	21.35	15.16	15.95	20.77	25.21	21.36	13.66
Activated carbon	9.88	13.44	16.99	16.64	20.19	21.37	10.95
Other fish, excluding livers and roes	-	1.33	1.61	1.90	4.78	151.64	2.59
Cuttlefish: Preserved			0.53	1.47	3.22	118.50	1.75
Copper alloys: Copper-nickle alloys			0.18	2.93	3.20	9.31	1.74
Natural rubber: Crepe rubber	1.23	1.88	0.59	1.10	3.12	182.47	1.69
Other	5.12	11.78	11.29	11.90	15.76	32.36	8.54
Total	117.47	122.01	137.34	159.20	184.49	15.88	100.00

Resources: 2022, United Nations COMTRADE database on international trade.

In 2019, China received 8.8 million kilogrammes of Sri Lanka's premium Colombo black tea, a 12% rise in shipments from the previous year. It is anticipated that Sri Lanka will export 10 million kilos of its 300 million kg of tea annually to China. Nearly one-third of China's total imports are tea. For him, China has emerged as Sri Lanka's fastest-growing "new market" due to the increased demand for luxury bottles and ancient Monastic black tea among Chinese tourists visiting Sri Lanka. Mr. Cooke said Sri Lanka's diverse, short-lived environmental resources, large cultivation areas of ancient Chinese varieties, and the orthodox black tea production tradition, which has evolved and remained largely unchanged for more than 150 years, are key reasons for the renewed interest in China. Sri Lanka plans to quadruple its exports of raw and added-value tea in 2019 and has planned a \$50 million worldwide marketing campaign. By 2030, Sri Lanka wants to export 3.5 billion dollars' worth of tea while also producing 350 million kilograms of tea altogether. In the upcoming year, the campaign will shift its focus from Russia to China. The chairman of the Sri Lanka Tea Board, Lucille Wijewardena, told the Xinhua News Service during a trip to China last month that the island nation sees China as a major export market with enormous potential. Demand for Sri Lankan tea is driven by the popularity of milk tea, a creamy blend that requires a strong base tea. Greens will not do. According to figures from the International Tea Committee (ITC), Tea imports to China have continued to increase from 1.18 million kilograms in 1998 to 35.5 million

kilograms. India and Kenya are trade partners for black tea, whereas Vietnam is a partner for green tea of lower quality. According to Cooke, Sri Lanka has a sizable market share. Sri Lanka sent 910,000 kilogrammes to China in 2008. Ten years later, shipments reached 10 million kilogrammes, or 28% of all Chinese imports. [28] [29]. Its high-value products include coir and hair, lamp and cleaning brushes, household brooms, doormats, palace covers, rubberized coir products for use in the agricultural sector, and cocoa nibs for cosmetic and agricultural applications. Bristle fibres are harvested in Sri Lanka utilising the Ceylon drum technique. This method produces long, pure fibres that are in abundance all around the world. Here, fibres are removed using cutting-edge manufacturing techniques. The utilisation of such cutting-edge techniques will also bring about a revival of Sri Lanka's coir sector [30].

China imported 53,588.068 tonnes of coconut and coir in May 2023, according to statistics. The previous figure for April 2023 was 61,702.247 Tonnes, therefore this represents a decline. China Import: Coconut, Coir data is updated on a monthly basis with 197 observations, at an average volume of 44,697.349 tonnes between January 2007 to May 2023. The information peaked at 74,254.012 Tonnes in September 2017 and hit a record low of 8,952.555 Tonnes in February 2008. Data on China's imports of coconuts and the coir are still active in CEIC and are provided by the National Administration of Customs.



**Figure 3** The Imports Value of Sri Lanka and China.

### 3.4. Sri Lanka-China imports

According to the Central Bank of Sri Lanka Annual Report 2022, imports from China to Sri Lanka are expected to total 3.285 billion dollars, down from \$4.756 billion in 2021. The Sri Lanka Imports China data is updated annually and covers a twenty-year observation period with an average of USD 2.810 billion. The figures rose to USD 4.756 billion in 2021 but fell to USD 329.000 million in 2003. Imports to Sri Lanka: Central Bank of Sri Lanka statistics on China are still live on CEIC. [31].

### 3.5. The main items China exports to Lanka

299 items have been manufactured in Sri Lanka and exported to nations besides China. PCB, components of digital, Semiconductor device, ASIC and micro assemblies, and preparations for the chemical and allied industries can all be exported to China duty-free, whereas manioc, bananas, chemicals, and clothes and leather-related items have a low rate of duty of 8.3%, 6.9%, and 8.5 percent, respectively. Due to increasing interest plus the low customs in place, Sri Lanka has the opportunity to expand into Chinese markets where other nations currently export these goods. To bring these items into Chinese markets in this context, Sri Lankan businesses or government officials merely need to engage with potential Chinese purchasers [17].

**Table 2** The main items China exported to Lanka in 2022

Sri Lanka-China Trade (Imports)	Amount	Year
Electronic components	\$464.83M	2022

Mechanical equipment	\$424.17M	2022
Handmade knitwear	\$332.56M	2022
Manmade staple fibers	\$193.68M	2022
Cotton	\$175.41M	2022
Plastics	\$162.17M	2022
Manmade filaments	\$158.95M	2022
Steel products	\$153.41M	2022
Iron and steel	\$132.92M	2022

(Reference: Central Bank of Sri Lanka, Annual Report, 2022; Sri Lanka Customs, Trade Statistics, 2022)

### 3.6. Key Findings

Based on the research findings, the following legal proposals have been made to improve Sri Lanka's international market integration and reduce trade barriers. These proposals are linked to sustainable development policies that are essential for the growth of the country's export earnings, the effectiveness of import controls, and economic development. Sri Lanka's import trends show that China's influence as a source of essential goods and services to the country is much greater than its influence as a market for its exports. In this asymmetric trade relationship, reliance on goods such as machinery, technical equipment and industrial raw materials imported from China for basic infrastructure projects outweighs the restrictions on access to the Chinese market in export sectors such as the textile industry. Specifically, Sri Lanka sent goods to China worth about US\$173.5 million in 2014, or roughly 1.5% of the total exports of the nation. Sri Lanka's import trends show that China's influence as a source of essential goods and services to the country is much greater than its influence as a market for its exports. The limitations on access to the Chinese market in export industries like the textile industry are outweighed by the necessity of importing industrial raw materials, machinery, and technical equipment from China for basic infrastructure projects in this lopsided trading relationship. Since the late 1980s, there have been triangular geo-diplomatic and economic relations between China, India, and Sri Lanka. Since the late 1980s, there have been triangular geo-diplomatic and economic relations between China, India, and Sri Lanka.

**Imbalance in Trade Situation:** With China, Sri Lanka has long experienced a trade imbalance. In other words, Sri Lanka imports more products and services from China than it does from China. There are a number of causes for the trade imbalance, including Chinese imports: Sri Lanka imports a lot of items from China, including construction materials, textiles, machinery, and electrical appliances. These imports increase the trade deficit even while they meet domestic demand. Infrastructure Projects: With Chinese involvement and investment, Sri Lanka has completed some significant infrastructure improvements, such as the Colombo Port City and the Hambantota Port. The amount of Chinese goods and knowledge imported has expanded as a result of these initiatives.

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## 4. Discussion

### 4.1. Financial Relationship with China and Sri Lanka

In the 1970s, China made one of its initial direct donations for the development of economic assets in Sri Lanka, which included a conference centre. Grant-based partnerships began to transition to a commercialized system that used interest-bearing loans and foreign direct investment (FDI) for development at the turn of the millennium. [32] [33].

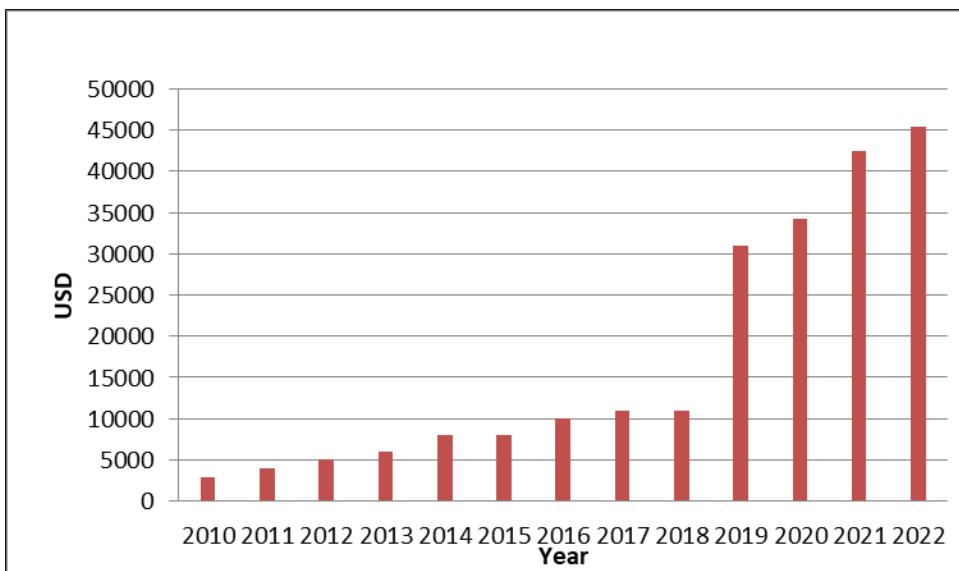
With Chinese assistance, a number of massive projects in the energy, communications, and transportation sectors were started under Mahinda Rajapaksa's administration (2005–2015). These include the building of Sri Lanka's famous Lotus Pavilion in 2012, the Norochcholai Oil Ring Power Plant in 2006, the Hambantota Port in 2007, the Mattala International Airport in 2010, and the Colombo International Container Terminal (CICT) at the Port of Colombo in 2011.

**Table 3** Financial Relationship with China and Sri Lanka

Year	Value	Projects
2010	2900	Mattala International Airport

2011	4000	CICT – Colombo port
2012	5100	Lotus Tower
2013	6000	
2014	8000	Port City Colombo
2015	8000	
2016	10000	Southern Expressway
2017	11000	Katana Water Supply Project
2018	11000	
2019	31010	
2020	34200	
2021	42400	
2022	45378	

Resources – Sri Lanka Department of Census and Statistics.



Resources: Sri Lanka Department of Census and Statistics.

**Figure 3** Financial Relationship with China and Sri Lanka

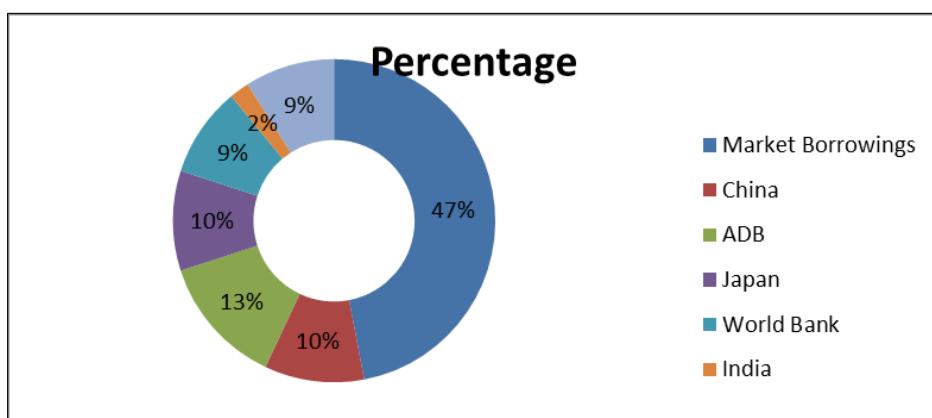
These projects contributed greatly to Sri Lanka's economic development and paved the way for the country's infrastructure development. [34]. China launched the "Belt and Road Initiative" (BRI) in 2013 with the aim of improving connectivity through global infrastructure development. Part of the plan, the Colombo Port City project was launched close to the Colombo Port in 2014. This has been followed by additional infrastructure work, such as road and expressway construction, water and sanitation programs, and the 2017 revision of the Hambantota Port Agreement.

No matter where you are on the island, you can easily access growth thanks to these initiatives, which have bolstered Sri Lanka's economy and created new prospects for both regional and global trade. Chinese infrastructure investments in Sri Lanka totaled \$12.1 billion between 2006 and July 2019, or 14% of the country's 2018 GDP (see Figure 1). This level of investment has increased from \$5.4 billion before the Belt and Road Initiative (2006-2012) to \$6.8 billion during the BRI period (2013-2019). However, compared to other nations like the Maldives (15%), Pakistan (16%), and those with established international ties and precedents like Cambodia (40%) and Laos (117%), Sri Lanka's economic significance to Chinese investment is smaller. On this basis, there is consensus at all levels to initiate Chinese investment in Sri Lanka.

#### 4.2. Trade Integration and Free Trade Agreement

Sri Lanka has expressed its willingness to explore bilateral trade relations with China. The two countries recently announced an agreement to establish a free trade agreement that will benefit Sri Lankan manufacturers, businessmen and traders by providing access to China's vast market. This historic agreement is expected to help strengthen economic cooperation, promote educational and technological exchanges, and build more cross-border cooperation in high-demand goods and services.

The Global Trade Protection Scheme (GSTP), the Asia-Pacific Trade Agreement (APTA), and the South Asian Free Trade Agreement (SAFTA) are among the bilateral trade agreements that Sri Lanka is a signatory to, most notably with India and Pakistan. Under these accords, Sri Lanka's present trade activities are restricted to the exchange of products alone; they do not concentrate on industries like technological cooperation or services. Nonetheless, trade promotion authorities stress that these accords offer chances to advance trade in a number of high-demand industries, including textiles, imported manufactured goods, and agricultural products. Sri Lanka is currently working with China to negotiate a Free Trade Agreement (FTA) and a specific agreement on services with the State Secretaries of the South Asian Association for Regional Cooperation (SAARC) countries. Sri Lanka also hopes to expand existing agreements with Pakistan and India to cover a wide range of economic sectors such as services, investment and multilateral cooperation. This effort is expected to open up opportunities for investment attraction, technology transfer and sustainable development in sectors such as agriculture, tourism and information technology in the country.



Recourses: Ministry of Foreign Resources Annual Review 2022

**Figure 4** Sri Lanka's External Debt Profile and Liabilities

In August 2013, Sri Lanka and China agreed to sign a Free Trade Agreement (FTA) to further strengthen bilateral commercial relations and expand economic cooperation. The agreement is expected to enhance the economic progress and parallel growth of the two countries through trade diversification, investment attraction, and strategic partnership. The formal start of the technical discussions in September 2014 has not yet been completed; five rounds of negotiations have already taken place. It's anticipated that the discussions will be finished in 2018.<sup>3</sup>

China is consolidating its dominance as the second-biggest economy in the world, leading exporter, and second-largest importer. A deal with a nation like China brings both exciting potential and difficult obstacles for Sri Lanka, a tiny market economy.

This briefing note's objective is to evaluate the potential and difficulties that functioning under an FTA with China would present for Sri Lanka. Analysing the major components of China's previous FTAs with other nations has shown potential obstacles and possibilities. The regulations governing the trading of products will be the major subject of the examination. The note's first half will discuss potential obstacles related to an FTA with China, while the second section will look at potential benefits.

Now 2000, Chinese funding to Sri Lanka has gone through five distinct phases, starting with bilateral lending and progressing through export credit and, most recently, the balance of payment aid through term loans from the China Development Bank, which have now replaced the sale of Eurobonds. The unprecedented bankruptcy in Sri Lanka and the debt repayment talks are the main topics of the final stage, which might determine not just the future of Chinese loans to Sri Lanka additionally to other BRI nations experiencing economic difficulties, particularly those in Africa.

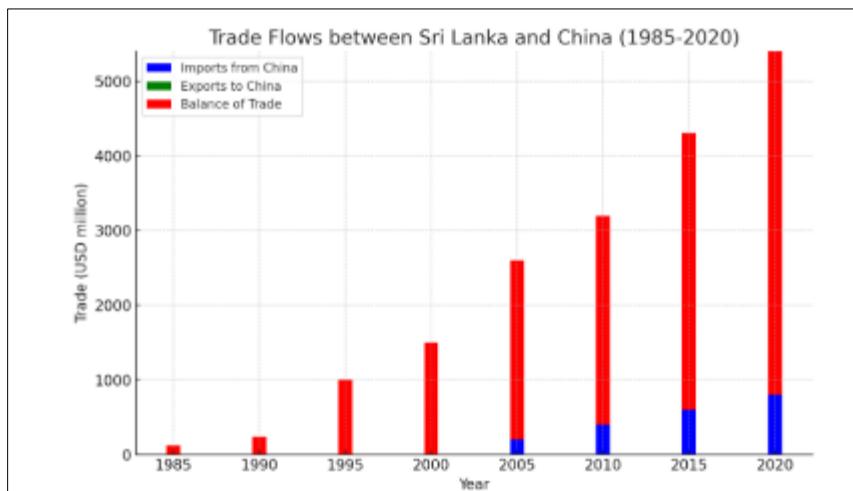
As Sri Lanka struggles with ongoing balance of payment concerns, both the share and the kind of loans from China are shifting. Many people were intrigued by Yang Jiechi's recent visit to Sri Lanka. During a worldwide virus outbreak, a delegation headed by Yang Jiechi, a former foreign minister and member of the Chinese Communist Party's Politburo, traveled to Sri Lanka. The opposition parties in Sri Lanka harshly criticized the Chinese delegation for forgoing standard quarantine and other public health management measures. In particular, they focused on the risk of destabilizing national security and health policies, the overreliance on diplomatic relations, and the potential impact on foreign debt and investment agreements. First, the Chinese delegation's presence during a global epidemic and the delegation's lack of regular quarantine procedures alarmed Sri Lanka's opposition. In light of the conversations between Sri Lankan politicians and the Chinese team, these worries were followed by the widely conjectured Chinese debt trap theory. Those conversations centred mostly on economic cooperation between the two nations, as well as the loans and investments from China.

According to estimates by the China-Africa Studies Initiative, Sri Lanka was due to repay about \$7.4 billion (about 25% of total external debt) to Chinese financial institutions by the end of 2022. This reflects the country's heavy reliance on foreign exchange loans and investment ties with China amid the deepening economic crisis. In particular, Chinese financial assistance in the areas of basic infrastructure, energy projects, and nationalized investments has sparked debates about the impact on the country's national financial stability. In light of this, Sri Lanka began to investigate alternate forms of foreign finance to relieve strain on its BOP. One choice was to get a Currency Converter Temporary Facility (syndicated loan). China Development Bank provided a \$1 billion bilateral loan to the government of Lanka at the time in 2018. This loan was received at the USD LIBOR fee (a benchmark rate used globally), plus a margin of 2.56 present annually, with an eight-year repayment time frame (with an initial three-year grace period). In March 2020, the size of this loan was increased, and the CDB provided a new \$500 million consortium loan with a 10-year payback period.

#### 4.3. Sri Lanka-China Bilateral Trade Dynamics and Trade Balance Analysis (1985-2020)

Between 1985 and 1989 and 2010 and 2015, exports to China climbed seven times, while imports from China increased almost 29 times. This has resulted in a glaringly negative trade relationship with China, as shown in Figure 05, which has widened the total trade deficit from 2000 to 2009. Sri Lanka's trade deficit (import-export difference) was about 26.4% of the country's total economic deficit in 2014. This situation reflects the depth of economic challenges such as high levels of import dependence, progressive decline in export earnings, and imbalances in foreign exchange credit flows.

For example, raw materials such as synthetic Fiber canvas, dyed and patterned cotton fabrics, and engineered Fiber fabrics imported from China are essential for the production of clothing and textiles, a major export industry in Sri Lanka. In 2015, this industry contributed 43% of the country's total export earnings, demonstrating the deep relationship between import-dependent manufacturing and the export economy. This reflects the country's economic challenges, including high import dependence, relatively low export earnings, and imbalances in foreign exchange flows.



Resources: Export Development Board (EDB), Central Bank of Sri Lanka, and Sri Lanka Customs.

**Figure 5** Sri Lanka-China Bilateral Trade Dynamics and Trade Balance (1985-2020)

## 5. Conclusion

While the Sri Lanka-China trade relationship is important for economic cooperation and foreign direct investment, the growing trade deficit is an obstacle to continued cooperation. Sri Lanka's exports to China are limited to basic raw materials and agricultural products, highlighting the need for diversification. Dependence on Chinese imports for industrial consumption and growth poses challenges to economic stability. If realized, such a trade partnership would be mutually beneficial to both nations but would require a commitment to fair trade practices, increased technological collaboration, and joint ventures in manufacturing, renewable energy, and tourism. Balance between Threat and Opportunity: For Sri Lanka, the Belt and Road Initiative can present opportunities due to its strategic location for China, but only if the debt involved is balanced with concerns about sovereignty, debt dependency, and domestic policies. While there are great opportunities in Sri Lanka-China trade relations, strategic planning, transparent negotiations, and committed implementation are essential to achieve balanced economic outcomes. In particular, a proactive approach that places a premium on sustainable development, equitable trade practices, and strengthened institutional frameworks will be key to securing the contributions of this bilateral partnership to the economic and social well-being of both nations.

### 5.1. Future frameworks

Sri Lanka should explore new markets such as Asia, Europe and America, reducing its over-reliance on the Chinese market. This trade diversification will strengthen the trade balance and reduce economic risks. Investment in value-added industries can increase profits by attracting Chinese tourists and increasing foreign exchange earnings. Promoting the tourism sector is essential to reduce the trade imbalance. Long-term energy independence (domestic power plants) should be targeted to reduce debt dependence. Technological innovation, output quality and reduction of production costs are necessary to improve export competitiveness. Trade agreements should be renegotiated, reducing trade barriers to ensure normal trade competition with China. A stable trade environment should be built through trade promotion operations (trade fairs, trade missions) and a regulatory framework (anti-violence laws, quality standards). Resolving trade imbalances requires a multi-dimensional approach and time. Coordination of government trade and financial policies to build a stable and fairtrade relationship with China should be a national goal

## Compliance with ethical standards

### Acknowledgments

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### Disclosure of conflict of interest

No conflict of interest to be disclosed.

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