

Abstract:

The People’s Republic of China (PRC) has been widely regarded as the world’s largest official creditor nation. In 2015, the volume of external Chinese loans exceeded that of international public loans from organisations such as the International Monetary Fund (IMF) and the World Bank (Toussaint, 2024), particularly to countries in the Global South, such as Sri Lanka, Pakistan, and Zambia.

This study investigates a period marked by an increase in Chinese involvement in Sri Lanka from 2005 to 2017. This study examines whether Chinese external lending practices culminated in a loss of Sri Lankan foreign policy autonomy or whether the domestic political decisions played a more important role. This study will utilise data from academic literature, Sri Lanka’s UN voting patterns, and data on Chinese loan concessionality compared with public financial institutions.

Key developmental projects, such as the 2017 Hambantota lease, are also evaluated in relation to Chinese lending practices in Sri Lanka. This paper concludes that Chinese lending practices have forced Sri Lanka to make foreign policy concessions and created fiscal dependencies that have limited the country’s foreign policy autonomy.

Chinese Debt-Trap Diplomacy

To what extent have Chinese lending practices influenced Sri Lanka’s foreign policy autonomy from 2005 to 2017?

Dona Yenali De Silva

Introduction:

Sri Lanka’s debt crisis and the 99-year lease of the Hambantota Port have fueled claims of Chinese “debt-trap diplomacy,” in which external lending creates economic dependence and political leverage, enabling creditor nations to build geopolitical allies. However, the extent to which Chinese lending constrained Sri Lanka’s foreign policy remains unclear, especially given the roles of multilateral organizations and domestic political actions. This study addresses this gap by examining the relationship between Chinese lending and Sri Lanka’s foreign policy autonomy from 2005 to 2017. Furthermore, this study finds that Chinese lending constrained Sri Lanka’s foreign policy autonomy: as Chinese financing increased, Sri Lanka increasingly adopted positions aligned with Chinese interests, departing from some aspects of its earlier foreign policy.

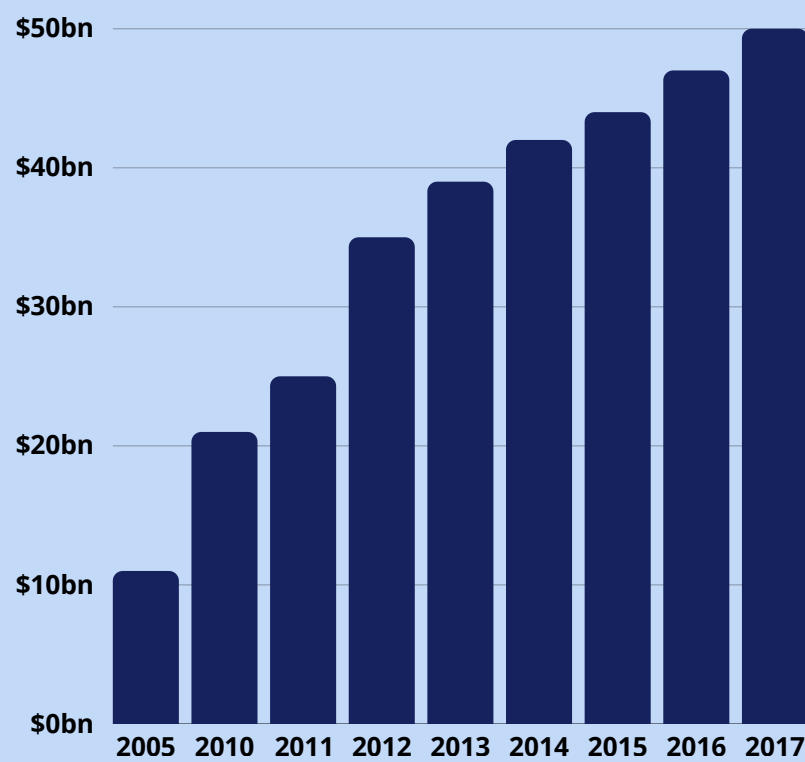
Methodology:

- Examined Sri Lanka as a national-level case to assess how increasing Chinese lending influenced the country’s foreign-policy autonomy from 2005–2017.
- Conducted a comparative analysis of foreign-policy positions before and after increased bilateral loans
- Obtained data from Chinese loans, FDI figures, UN voting records and diplomatic statements published from official government websites.
- Examined the sequences of financial dependence, creating debt-repayment pressure, and ultimately resulting in foreign-policy alignment.
- Applied the theoretical framework of realism to examine how nations pursue strategic interests; asymmetric interdependence to assess how unequal financial dependence on a national level creates political leverage. and elite capture to evaluate the role of domestic political elites in shaping foreign-policy decisions.
- Carried out a causal assessment and determined whether changes in Sri Lanka’s foreign policy could plausibly be attributed to strategic Chinese financial loans, while accounting for the role of domestic agency.

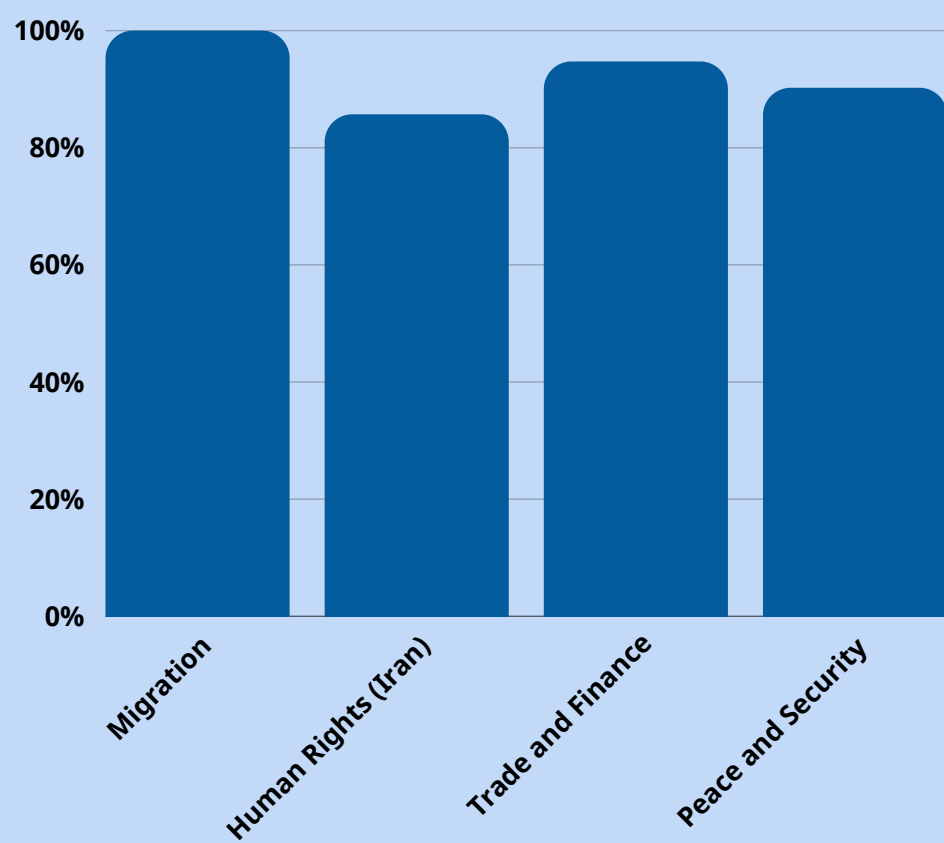
Results:

- Sri Lanka moved from its longstanding support for UNCLOS and regional neutrality in maritime affairs to supporting China’s position in the 2016 South China Sea arbitration case.
- In 2007, Sri Lanka reaffirmed the “One China” policy though a joint communique, during a period of increasing Chinese financial involvement; the shift coincided with growing Chinese lending.
- A budget deficit of 8.7% of GDP coincided with greater alignment in UN positions, including Sri Lanka’s 2005 support for budget-surveillance measures consistent with Chinese efforts to limit OHCHR scrutiny.
- Chinese financing was also used for white elephant projects that were politically significant under the Rajapaksa administration, meaning Sri Lankan elites shaped how economic dependence translated into foreign-policy decisions.

Chinese Lending to Sri Lanka, 2005–2017 (US\$ billions)



Sri Lanka–China UN Voting Alignment by Issue Area



Conclusion and Discussion:

- Rising Chinese financial dependence coincided with greater foreign-policy alignment of Sri Lanka with the PRC’s strategic geopolitical interests.
- Changes in UN voting patterns and diplomatic behaviour (statements from Sri Lankan officials) demonstrate a gradual shift toward China.
- Sri Lankan political elites also shaped this process, actively accepting Chinese financing in pursuit of domestic interests (gaining favour during elections).
- Multilateral institutions should provide more competitive, accessible financing with flexible repayment terms, enabling developing states to diversify their creditors and preserve foreign-policy autonomy.

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