

Chinese Debt-Trap Diplomacy: To what extent have Chinese lending practices influenced Sri Lanka's foreign policy autonomy from 2005 to 2017?

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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.

Keywords: Sri Lanka, China, debt-trap diplomacy, foreign policy, and loan concessionality

INTRODUCTION

In 2006, Sri Lanka's external debt stock was only \$10.6 billion, and commercial loans accounted for only 7% of external debt. This figure increased to \$25.3 billion by 2016 (Moramdali) following the rise in the PRC's external financing for infrastructure projects. Sri Lanka's indebtedness to China has raised concerns both domestically and internationally, and speculation about China's "debt-trap diplomacy" (DTD) is gaining popularity. According to Michal Himmer and Zdeněk Rod, "DTD builds on the approach that China intentionally excessively lends money to low-income indebted states that cannot later repay Chinese debt" (Himmer and Rod, 2023). Experts have attributed Sri Lanka's rise in external debt to "China's creditor imperialism" (Chellaney, 2017). This is a scenario in which the PRC lends substantial, high-interest, short-term loans to economically unstable nations, knowing these states will struggle to repay them. LEDCs (Less Economically Developed Countries) may therefore align their foreign policy

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with that of the PRC, thereby gaining favour with the PRC and renegotiating debt terms to make debt repayment less financially burdensome. Even though the PRC may agree to relax austere terms, the country quietly builds allies in the Global South and garners support for its agenda, such as non-interference in governance, which it promotes in international arenas as a form of soft power. Researching this area of study will lend credence to the claim that developing nations must strive to build self-sufficient economies free from economic and political exploitation by global powers.

To address the research question, this paper is structured as follows: Firstly, this paper will present a critique of the concept of debt-trap diplomacy; next, it will conduct a historical review of Sri Lanka's borrowing practices from the 1970s through 2017. This paper will also track the evolution of Sri Lanka's borrowing practices from grant assistance in the 1970s to BRI (Belt and Road Initiative)-approved loans after 2006, culminating in the 99-year lease of the Hambantota Port in 2017. Furthermore, the paper will examine the evolution of Sri Lanka's UN voting pattern and foreign policy stance from 2005 to 2017 and assess whether the country is increasingly voting in favour of China's international agenda. The main argument to be advanced in this paper is that Sri Lanka's foreign policy autonomy has been significantly compromised. As such, this paper will seek to analyse in detail the causal relationships between China's lending practices and Sri Lanka's foreign policy autonomy. Finally, this paper concludes that Chinese lending practices have significantly undermined Sri Lanka's foreign policy autonomy, thereby impacting the country's diplomatic conduct in ways that deliberately align its interests with those of Beijing.

ON DEBT-TRAP DIPLOMACY: A CRITIQUE

Scholars have debated whether the concept of DTD is overstated or a credible justification for the PRC's growing geopolitical presence. Although scholars view the concept as dramatised, it remains a useful framework for comprehending how large creditor nations create and leverage a fiscal dependency to gain geopolitical power. 'Debt-trap diplomacy' is a term used to define a creditor nation or establishment extending loans to a borrowing nation to expand the lender's political leverage (Ajnoti, 2022), and this concept is often deployed in LEDCs that lack domestic funding mechanisms to generate revenue to fund their own developmental projects and therefore turn to creditor nations for monetary support. DTD involves disbursing large infrastructure loans to LEDCs with weak repayment capacity. Creditor nations, knowing this, can "trap" nations in a vulnerable position, forcing them to align their foreign policy with their creditors, gain international favour, and then proceed to crucial debt restructuring talks. The ultimate aspiration of creditor nations that engage with DTD is not necessarily to be repaid but to force fiscally weak nations into a position where they alter their foreign policy, hoping it will allow them to navigate difficult debt-restructuring talks (Azam, 2024). Creditor nations can subtly shape a sovereign country's foreign policy and gradually diminish its autonomy. This occurs when external social or economic pressures influence the government's decisions, effectively sidelining its independent foreign policy. Western critics have compared DTD to predatory lending, arguing that the PRC's lending practices create unhealthy fiscal dependencies (Hatton, 2021). This criticism stems from the overly concealed and unconventional nature of Chinese lending practices. The PRC disburses most of its funds through state-backed loans that do not appear in official government debt accounts; therefore, debt deals are kept

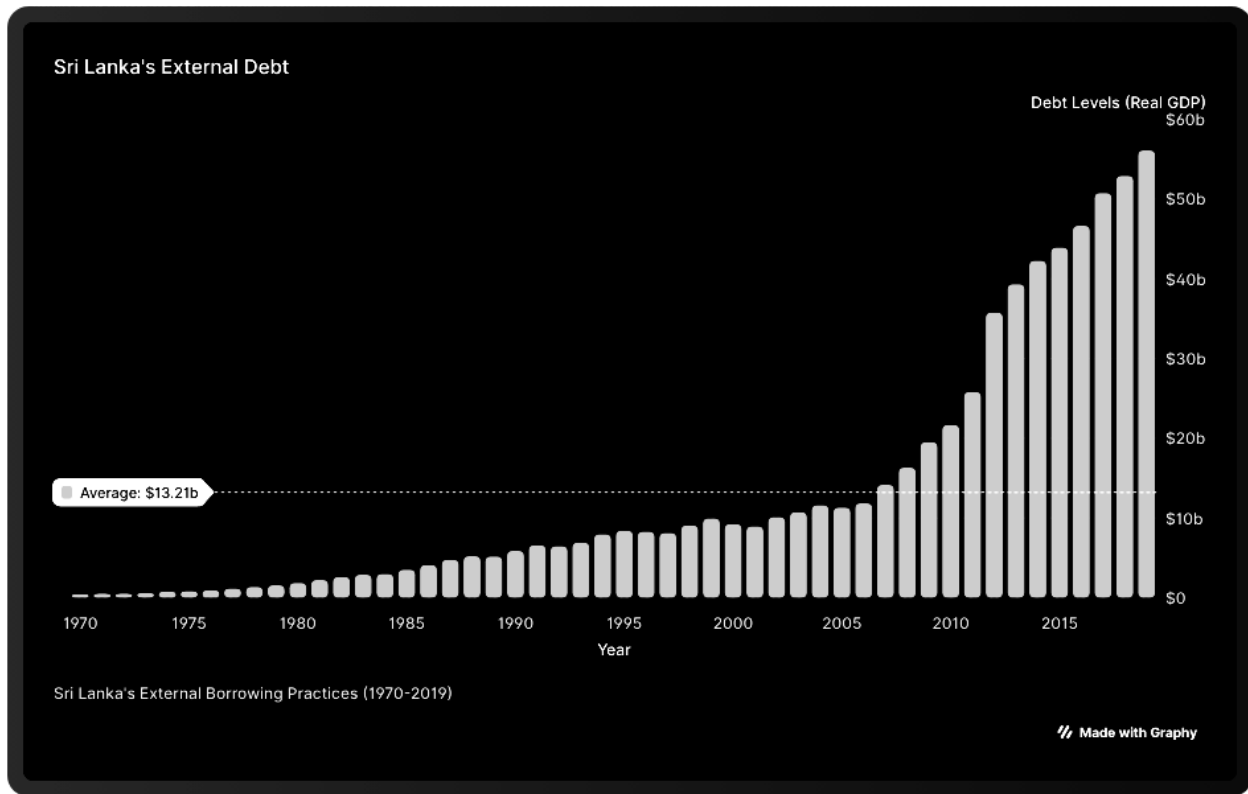
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off balance sheets and include concealed information that is not disclosed to the borrower nation. Information asymmetries create further confusion and “blind” LEDCs from understanding the real level of debt they are in. A 2021 report from AidData showed that a total of \$385 billion in hidden debt was owed by LDCs to the PRC, and this off-balance sheet lending is of a far greater scale than what was previously thought, creating a high-risk environment for LEDCs with limited sources of revenue to pay back these loans.

Scholars have also argued that the PRC's developmental financing is quite recipient-driven and that the PRC has no control over what infrastructure is constructed under the BRI programme (Jones and Hameiri, 2020). This argument does not consider that financial asymmetries affect decision-making. LEDCs that face fiscal stress and seek infrastructure because of urgent economic needs and limited access to alternative funding sources. These nations may be quick to accept loans for projects that provide instant financial relief in the short run but create repayment problems in the long run. Consent for a loan does not equate to equal negotiating power, and when fiscally weak nations negotiate from a position of economic vulnerability, a creditor-debtor hierarchy begins to emerge, allowing the PRC to dictate which infrastructure projects are approved and which Chinese contractors are tied to them. The PRC retains significant control over project implementation and is strategically positioned to create financial dependencies. LEDCs are systematically disadvantaged and trapped in positions where they must align with the PRC to increase their negotiating power slightly and obtain less austere repayment loans at the cost of their foreign policy autonomy. DTD becomes concerning when a financial dependency manifests in influence over foreign policy decisions. To illustrate, the Laos-China railway was a key BRI project that cost a total of \$9.5 billion and created a fiscal burden on Laos. China currently owns approximately 50% of Laos's \$12.6 billion sovereign debt (Sun, 2017), and the loans for the project flow from the Export-Import Bank of China. The high-interest nature of the loans has created financial pressure for Laos to repay them and further intensified the fiscal dependency between the two nations, thereby allowing Beijing to influence Lao's affairs. In 2021, Laos relinquished control over national assets such as the Électricité du Laos Transmission Company (EDL-T), where the PRC gained a drastic 90% majority stake. The transfer of national assets as a form of debt repayment shows that predatory lending practices can infiltrate and manipulate a domestic government's sphere of control and can allow foreign powers to exercise authority and leverage their power over strategic national assets for diplomatic support. Now that a Chinese state-owned firm controls a primary source of the country's foreign exchange, Laos has lost a significant amount of revenue autonomy. The fact that strategic concessions resulted from debt-trap diplomacy and predatory lending practices shows that these practices are harmful, and nations must strive to avoid relying on a single creditor nation to avoid being fiscally exploited (Savic, 2026).

HISTORICAL REVIEW OF SRI LANKA'S BORROWING PRACTICES



Despite external debt accounting for only 20.3% of GNI (Gross National Income) in the 1970s, it escalated throughout the decade, reaching approximately US\$783.76 million in 1974 (Macrotrends, n.d.). This is because in the 1970s, the Sri Lanka Freedom Party (SLFP) aimed to reduce Sri Lanka's dependency on foreign goods and services whilst strengthening domestic industries. However, the government overestimated the country's domestic capital and realised that external financing was required to boost the domestic economy. Since concessional loans from multilateral institutions like the World Bank had long maturity periods, they were financially attractive to low-income countries like Sri Lanka (Globalen LLC, 2024), and the country borrowed excessively to build its domestic economy, resulting in debt accumulation throughout the 1970s.

In the 1990s, Sri Lanka was no longer considered a "poor country" and transitioned to a middle-income one. The World Bank remained a major lender to Sri Lanka, yet loans shifted from concessional to IBRD (International Bank for Reconstruction and Development) loans, focusing on assisting Sri Lanka in expanding its private sector and reforming the economy amid the Sri Lankan civil war (1983-2009). The government required funds to cover war costs, particularly for weapons and soldiers' pensions. At the same time, government tax revenue fell due to low consumption and the mass emigration of 800,000 Sri Lankan Tamils (Red Cross, 2023), creating a government budget deficit, making the repayment of said loans more challenging, and worsening the country's sovereign debt crisis.

The 2000s marked a profound shift in the type of loans Sri Lanka received. The end of the Civil War was fast approaching, and, due to high levels of borrowing from multilateral institutions, Sri Lanka's external debt totalled 101% of its GNI. Sri Lanka was classified as a lower-middle-income country and no longer met the standards required to obtain concessional aid loans from public funding organisations. As a result, Sri Lanka's access to highly subsidised bilateral aid was restricted, and the government grew concerned about how it would sustain the war effort. By 2005, Sri Lanka was desperate for upfront capital to fund the war. Since multilateral development banks had loan limits, Sri Lanka turned to China for financial support. China's external funds consisted of large sums and long-maturing loans of around 20 years. These loans lacked the rigidity of IMF loans, making them appealing to Sri Lanka. The Export-Import Bank of China moved quickly, signing a buyer's credit loan agreement of \$306.7 million for phase one of building the Hambantota port on October 30th, 2007 (Ghosh, 2022).

Multilateral sources of commercial financing struggled to provide the same volume of infrastructure funding as China did; by 2010, the PRC held 37% of Sri Lanka's external debt. In 2013, when the BRI (Belt and Road Initiative) was introduced, China Eximbank loaned a \$1.3 billion concessional loan for the expansion of the Hambantota port with the condition that funds had to be used with Chinese contractors like the CHEC (China Harbour Engineering Company); essentially, the loan amount was under contract with Chinese firms, and the funds that acted as a significant share of Sri Lanka's borrowing flowed directly to Chinese companies. This proves that Chinese loans were designed to benefit the PRC's own economy.

By 2017, China had become Sri Lanka's largest bilateral creditor, holding about 14% of the country's bilateral debt. That same year, since the Sri Lankan government failed to generate sufficient revenue to service its tied Chinese loans to develop the port, the Hambantota port was therefore leased to China Merchants Holdings (CMH) for 99 years. Fearing the risk of default, the government hastily agreed to the lease and granted CMH 70% ownership of the ports' operations, turning debt obligations into operational control as compensation for its failure to repay loans (Carrai, 2019). Whilst the government experienced short-term financial relief, it had unknowingly granted China control over a geopolitical asset that would finance its own operations. China Merchants Port Holdings has not disclosed the revenue it has generated from the Hambantota port in recent times, but cargo handling at the port reportedly grew by 150.8% from 2018 to 2019.

One might want to explain why countries turn to China rather than the World Bank. Despite the "predatory nature" of Chinese loans (shorter grace periods and higher interest rates), countries are quick to turn to the PRC for loans for two primary reasons. Firstly, the speed at which Chinese loans are disbursed is remarkably faster than that of bodies like the IMF. China's loans via the CEXIM are relatively fast-paced, given that the country offers a "package deal" in which the loan, labourers, and state-owned enterprises are all decided quickly. This process bypasses the lengthy "competitive bidding" phase that public financial institutions use, which requires proposals and extensive red tape. LEDCs like Sri Lanka, which have just emerged from a civil war, are desperate for quick loans to kick-start economic recovery. Developing nations are in no position to delay these initiatives; thus, they view "competitive bidding" as a hindrance to their recovery and prefer to readily obtain loans from a creditor nation that can provide them as quickly as possible (Chai and Tang, 2023). It's vital to view the PRC as a competing

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creditor nation to public lending organisations that simply offer a more "attractive" governance product that LEDCs demand. As the IMF and World Bank lose their monopoly over conditionality, they unintentionally pave the way for creditor nations like the PRC to lure in "customers" (LEDCs) and reinforce their status as more convenient creditor partners.

Secondly, the red tape that comes with IMF/World Bank loans deters LEDCs from obtaining loans from such organisations in the first place. To obtain an IMF loan for a project, extensive feasibility studies are conducted, and the project is scrutinised for corruption risks before a loan can be approved. LEDCs view this process as inconvenient, worried that their loan request may be denied even at the slightest hint of infeasibility. China operates a strict "non-interference policy" under which it does not require the borrower nation to adopt strict austerity measures, yet its loans create fiscal dependencies that allow the PRC to exert some influence over domestic governance. This convenience makes Chinese loans significantly more attractive to LEDCs; thus, more countries, such as Sri Lanka, will accept loans from creditor nations like China, creating institutional displacement that reaffirms the PRC's superiority as a creditor nation. The IMF's and the World Bank's "strictness" and low appeal to developing nations created a space for China to compete with these multilateral lending organisations. The PRC established its presence as a powerful bilateral lender, creating an institutional vacuum that allowed it to intervene and demonstrate its credibility as a creditor nation.

EVOLUTIONS OF SRI LANKA'S FOREIGN POLICY

Halvard Leira defines foreign policy as a twenty-first-century practice concept associated with institutions such as ministries of foreign affairs and embassies, as well as ideas such as national interests, rational utility maximisation, and bureaucratic politics (Leira, 2019). Sri Lanka's foreign policy is no different in that it aspires to prioritise domestic concerns; however, with external influences such as the PRC's loans, the country's foreign policy has evolved along a trajectory that reflects these influences.

Before the influx of Chinese loans in 2005, Sri Lanka's foreign policy was closely aligned with the Non-Aligned Movement (NAM) on the international stage. The country's policy was centred around policy neutrality, non-interference, and maintaining equally strong relations with global powers such as India, China, and Russia (De Silva, 2017). Sri Lanka demonstrated its commitment to policy neutrality, choosing to support or condemn an international event based solely on its foreign policy, without any influence from foreign powers. For example, during the Indo-Pakistani war of 1971, the Sri Lankan government allowed Pakistani aircraft to land safely and refuel in the country. This was a political move that angered India and strained diplomatic relations between the two countries. Sri Lanka maintained strict neutrality by avoiding active military participation and maintaining sovereignty despite regional pressure from India. The Sri Lankan government took responsibility for its action, maintained its decision despite pressure from India, and demonstrated a willingness to maintain its decision-making autonomy at the cost of India's disapproval. Therefore, it can be asserted that, before Chinese influence, the country possessed strategic 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?

In 2005, Sri Lanka's foreign policy was shaped by the country's desire to recover from the effects of the 2004 Indian Ocean tsunami, whereby an estimated 30,957 people lost their lives (Jayasuriya et al., 2006). While the IMF approved around US\$157.5 million in emergency assistance in March 2005, China provided 2,470 food packages, sent in emergency relief supplies worth US\$1.2 million, and wrote off outstanding debts worth US\$4.3 million (Chan, 2005). The PRC's lending for infrastructure in the 5-year post-tsunami period totalled US\$1 billion and exceeded the IMF's temporary emergency financing. This reinforces the notion that the PRC leveraged Sri Lanka's circumstances to cultivate a long-term financial relationship by demonstrating its reliability as a major creditor nation. The PRC subtly coerced the country into making foreign policy concessions, and Sri Lanka did so to convince the PRC to soften the austere debt terms and make repayment less financially burdensome. Therefore, it can be argued that the 2004 tsunami was a strategic debt-entry point for the PRC, but further evidence is required to determine whether there were any strategic changes in Sri Lanka's foreign policy after this event.

Sri Lanka typically aligned its UN voting with the Non-Aligned Movement, but in 2007 it reaffirmed its support for the "One China" policy – the PRC's diplomatic assertion that it was the sole legal government of Taiwan – through a joint communique. This overt stance marked a shift in Sri Lanka's previously non-aligned foreign policy to a more China-aligned policy (Press Release General Assembly, 2000). Sri Lanka was slowly discarding its stance of international neutrality and becoming more inclined to support Chinese efforts in international forums, suggesting that the country's heavy involvement in the BRI, as well as its receipt of \$16.4 million in foreign direct investment (FDI), may have made it obligated to repay China the only way it could – with diplomatic support. After all, with the country experiencing a large budget deficit of 8.7% of GDP, Sri Lanka was in no position to repay its debt to the PRC. Thus, foreign policy concessions were a way to demonstrate that Sri Lanka was supportive of China and was desperate to renegotiate loan terms to make repayment easier. This ultimately weakened the local government's foreign policy in determining its own stance towards China's legal authority over Taiwan. Therefore, it can be concluded that Sri Lanka's foreign policy autonomy was compromised by its desire to secure favourable debt terms, and Chinese lending practices inevitably enable the Chinese government to coerce other countries and secure support for its foreign policy agendas.

Critics of debt-trap diplomacy argue that Sri Lanka established diplomatic relations with Beijing in 1975, well before large-scale bilateral loans were exchanged between the two countries, and that even nations that previously had no outstanding loans to China, such as Canada, supported the "One China" policy. However, while Sri Lanka's diplomatic recognition of the PRC existed prior to its excessive borrowing from the country, the degree and severity of support have increased. A country can respect another nation's sovereignty without formally adopting said nation's foreign policy. This is not what Sri Lanka has done; instead, the country has reaffirmed its support for China through bilateral communiqués during economic crises. It can be asserted that Sri Lanka has indeed become fiscally dependent on China, enabling it to negotiate favourable loan terms and reduce the financial burden of loans at the expense of control over foreign policy decision-making.

In the 2000s, former President Mahinda Rajapaksa championed the construction of the Hambantota Port in order to turn the southern region of Sri Lanka into an industrial hub. The port held geopolitical significance because it was located 10 nautical miles from busy east-west shipping ports such as the Suez

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Canal. President Rajapaksa initially called on countries to bid for the proposal to finance the port, but the United Progressive Alliance government in India ultimately declined to involve itself in the matter in 2005 over concerns about the port's economic viability (Gangte, 2020). In 2007, President Rajapaksa turned to China, and the country agreed to take on the project. Construction began in 2008 and was primarily led by the China Exim Bank (CEXIM). CEXIM initially lent Sri Lanka a 15-year commercial loan with a fixed interest rate of 6.3% (Carrai, 2019) for phase 1 of the port construction. During this period, standard concessional rates from multilateral development banks, such as the IMF, were lower than the concessional rate China was offering. This proves that Chinese loans are not explicitly "easier" to repay; they are strategically designed to ensure a developing nation does not repay them, or at least struggles to do so. The case of the Hambantota port is a key example of a predatory debt-equity swap that reinforced the PRC's geopolitical agenda.

The PRC can then reassert the need for the debt-ridden nation to repay its loans, and that nation, struggling to repay the loans, may amend its foreign policies to align more closely with China's to gain favour with the country. With this gesture a developing nation may be able to convince the PRC to renegotiate less stringent debt terms and make it simpler for the country to pay back the loans, yet this need to be free of such a financial strain ultimately undermines a country's foreign policy autonomy and independent decision-making, allowing the PRC to gather allies for the agendas it promotes in the international space, increasing its geopolitical power.

"Loan concessionality" refers to the degree of "softness" of the loan, and given that the PRC's loan to Sri Lanka was considered "less generous" in comparison to the loans distributed by multilateral lending organisations, it can be asserted that the PRC's loans lack long maturity periods and are financially difficult for developing nations to pay back. Thus, the PRC's loans, while generous in quantity, are inevitably predatory compared to loans offered by multilateral lending organisations. These loans increase the risk that developing nations will fall into insolvency and prompt foreign policy adjustments to secure longer grace periods and make the loans less financially burdensome to repay. In the long run, it affects the sovereignty of said nations and advances China's agenda of rallying support for its objectives on the international stage.

China compensates for its financially predatory loans by requiring fewer political conditions and less red tape than loans from credible lender organisations. As a result, developing nations are attracted to the convenience of Chinese loans, overlooking the financial burden and, in the long run, unknowingly compromising their sovereignty when they struggle to repay the loans. For example, in 2013, Djibouti secured a commercial loan of \$492 million from the CEXIM to build the Addis Ababa-Djibouti railway. This loan had a significantly shorter grace period than previous infrastructure loans, and in 2023, the railway's underperformance led to a suspension of debt servicing (Wright, 2019). CEXIM eventually owned 78% of the country's outstanding debts. Djibouti secured a 4-year debt moratorium, inadvertently giving the PRC influence over Djibouti's national budget, contributing to a loss of fiscal autonomy and increased Chinese influence in the country. When compared to the case of Sri Lanka, it is possible to see that the predatory nature of Chinese loans "traps" nations in a situation where they must make economic or foreign-policy-related concessions as a way to gain favourable debt conditions and soften the financial

burden of debt; hence, the concept of “debt-trap diplomacy” resurfaces, and developing countries are exploited as nations that end up losing their ability to cultivate their own foreign policy.

Evidence of shifts in Sri Lanka's foreign policy following the recent infrastructure investment in Hambantota is presented in Sri Lanka's UN voting patterns. The country consistently aligns itself with China's foreign policy in the international arena. For instance, China has continuously sought to limit the budget of the Office of the High Commissioner for Human Rights (OHCHR) and has consistently resisted external monitoring into domestic matters (Langrand, 2025). In turn, Sri Lanka typically supported stricter oversight of UN human rights spending at UN budgetary control meetings. In 2005, Sri Lanka voted in favour of budget surveillance measures in the UN General Assembly. Sri Lanka was one of the 97 countries that voted for budget constraints; other nations included Niger, Nepal, and Malaysia, and these nations were also quietly relinquishing their foreign policy autonomy and supporting Chinese foreign policy agendas. This proves that Sri Lanka, a country that generally took a neutral stance in international affairs, has amended its foreign policy to align more closely with China's. Consequently, the PRC benefits because it ultimately achieved its goal of strategic UN budget constraints and avoided external investigation into its domestic governance.

TOWARDS AN ASSESSMENT OF EVIDENCE: EVALUATING CAUSALITY

Shifts in Sri Lanka's foreign policy, including its approval of policies such as the One China Policy, can be causally linked to the influx of Chinese loans from 2005 to 2017. This is the reason austere bilateral loans play such a substantial role in influencing foreign policy autonomy. That said, austere loans are designed with the intention of making it financially difficult for countries like Sri Lanka to pay them back, as opposed to the Bretton Woods institutions that prioritised monetary cooperation, fewer "beggar-thy-neighbour policies" and more loan transparency. As a result, creditor nations like the PRC can leverage their ability to repay debts and subtly insinuate that a nation must support Chinese agendas to secure less austere debt-repayment terms. Ultimately, out of desperation, LEDCs modify their foreign policy by supporting policies they were previously opposed to or neutral towards, such as the One-China Policy, to gain favour from their creditor nation. As a result, foreign policy decision-making autonomy is compromised.

To link PRC loans to Sri Lanka's loss of foreign policy autonomy, one might consider evaluating Sri Lanka's stance on certain disputes before and after the country became noticeably dependent on bilateral loans from the PRC.

Evidence (1): Sri Lanka's Position on the South China Sea Dispute: The South China Sea dispute would serve as an appropriate example. Before the influx of Chinese loans, Sri Lanka was reliant on soft loans from multilateral lending organisations such as the World Bank (The World Bank, 2026). During that time, Sri Lanka viewed maritime disputes within the context of the United Nations Convention on the Law of the Sea (UNCLOS). Sri Lanka even ratified the law on July 19th, 1994, solidifying its support for international law, free from any external influences. Sri Lanka has historically called for the universal

application of UNCLOS, specifically to secure small coastal nations like itself from pressure tactics deployed by more influential nations such as India (Klein, 2019). This shows that multilateral loans from credible public lending organisations cannot be linked to a compromise of Sri Lanka's foreign policy and any change in the causal relationship between increased external debt and foreign policy compromise is influenced by Chinese involvement. These multilateral loans did not influence Sri Lanka's independent stance of neutrality on regional issues or its adherence to international maritime law. In 2016, the PRC surpassed multilateral organisations and became the largest creditor nation to Sri Lanka, providing bilateral loans worth \$440.76 million (EconomyNext, 2017). The country was also struggling with a mounting debt-servicing crisis with a debt-to-GDP ratio of over 79%.

Evidence (2): Sudden support for the PRC's policies that violate maritime law: That same year, the 2016 arbitration case concerning the PRC's nine-dash line and land reclamation practices came to light. While The Hague concluded that the PRC's claims violated the Philippines' sovereignty and undermined UNCLOS, Sri Lanka supported the PRC's stance in the case. On June 24th, 2016, the Colombo Gazette released a statement claiming, "China says more than 40 countries have offered support for its position, the most recent being Zimbabwe and Sri Lanka" (News, 2016). Before the final ruling of the case, the former Sri Lankan Foreign Minister Mangala Samaraweera claimed that he "understands and applauds China's relevant stance" (China-embassy.gov.cn, 2016) on the South China Sea dispute. This scenario alludes to a central theme of realism: rational states act in their own interests to maximise power and serve their national interests. The PRC, seeking to advance its interests by gaining allies for its agenda, strategically used predatory loans to make Sri Lanka fiscally dependent on the PRC, unlikely to repay the debt, and more likely to shift its foreign policy in favour of the PRC. Ultimately, the rational actor, in this case the PRC, maximises its national interest by gaining international support through predatory lending, alluding to humanity's tendency to act selfishly – according to the tenets of realism. The positive causal relationship between increased external debt to the PRC and changes in Sri Lanka's foreign policy is not coincidental, in choosing to align itself with a nation that's disregard for international maritime law was unquestioned- Sri Lanka acts as a proven case for undermining its previous, independent support for UNCLOS and maritime law, purely to gain favour by their creditor nation.

A country that had previously championed and called for the application of UNCLOS worldwide was now supporting a nation that was actively violating that maritime law through its claims. This foreign policy action directly contradicted its long-standing support for UNCLOS and its international stance of neutrality in regional disputes, showing that there was indeed a link between the influx of loans in 2016 and Sri Lanka's drastic contradiction of its previous stance on UNCLOS. It's important to note that the statement released by Mangala Samaraweera came directly after debt-restructuring talks between China and Sri Lanka (Rod, 2024); therefore, it can be concluded that there was a direct non-coincidental causal relationship between Sri Lanka's desire to keep obtaining credit from the PRC and its change in foreign policy in favour of the PRC. Sri Lanka's mounting debt-servicing crisis prompted the need for debt-restructuring talks with the PRC. This led the country to prove its desperation for the PRC's austere bilateral loans and to concede its previous stance on maritime law to support the PRC's position. This allowed the nation to gain favour and secure less austere debt-repayment terms for its existing loans. This implies that the inability to repay loans directly compromised Sri Lanka's foreign policy. The country was

abandoning its autonomous decision to support UNCLOS and passively supporting a nation that violated it. This implies that Sri Lanka had forfeited its autonomy in foreign policy decision-making and was endorsing the PRC's stance on regional issues. In not wanting to upset the PRC by not supporting its stances after "generously" giving the country paradoxically predatory loans, Sri Lanka chose to affirm the PRC's stance on matters, even if it meant contradicting its previous autonomous stances. Therefore, it can be established that Sri Lanka was no longer autonomous, and the influx of hard-to-repay Chinese loans directly led to a change in Sri Lanka's foreign policy. While it can be inferred that foreign policies can change due to a multitude of factors, such as the rise of new security threats, the timing of Sri Lanka's alignment with the PRC's stance on the 2016 Arbitration Case immediately followed the influx of bilateral loans and debt-restructuring talks and directly led to alterations in the country's foreign policy. This shows that predatory lending practices that were hard to repay created a financial dependency that directly caused Sri Lanka to alter its foreign policy autonomy.

When assessing the relationship between Chinese loans and Sri Lanka's foreign policy autonomy, it is important to establish a causal mechanism centred around the context of complex interdependence. In their book *Power and Interdependence*, Robert Keohane and Joseph Nye claimed that "it is asymmetries in dependence that are most likely to provide sources of influence for actors in their dealings with one another." (Keohane and Nye, 1998). In the case of evenly balanced mutual dependence, interdependence is symmetrical; in the case of the PRC-Sri Lanka relationship, it is asymmetric, allowing the exploitation of the "more dependent" nation. Sri Lanka's overreliance on CEXIM's predatory loans for infrastructure reconstruction created financial vulnerability, leaving the nation vulnerable to exploitation. For instance, the PRC primarily funded the construction of white elephant projects such as the Hambantota Port that had a subthreshold economic internal rate of return (EIRR), therefore creating financial vulnerability on the part of Sri Lanka because the country was unable to generate enough revenue to service the debt and thus became dependent on the PRC to provide more concessional debt terms to make debt repayment less burdensome on the country. To prove its commitment to repaying loans and securing less-harsh debt terms, Sri Lanka would weaken its foreign policy autonomy to gain favour with the PRC. The PRC, knowing that Sri Lanka was desperate for loans to kick-start economic recovery after the 2004 tsunami, used the concept of issue linkage to leverage the country's desperate circumstances, creating a financial asymmetric dependency that ultimately undermined Sri Lanka's foreign policy autonomy.

While the theory of complex interdependence focuses on a state-to-state relationship between Sri Lanka and the PRC, it's vital to note that states do not function as monoliths and that a small group of elite domestic decision-makers in Sri Lanka align their interests with those of the PRC to consolidate their domestic power at the expense of foreign policy autonomy. The theory of elite capture can be utilized to explain how "political projects can be hijacked in principle or in effect by the well-positioned and resourced" (O. Táiwò, 2022). For instance, the ruling class in Sri Lanka became dependent on Chinese capital to maintain its domestic political image. The Rajapaksa administration used high-interest Chinese loans to fund white-elephant projects such as the Magampura Mahinda Rajapaksa Sports Complex, which was criticised for failing to meet international standards (Anjana Kaluarachchi, 2024). This project required substantial state funds for upkeep and was intended to enhance the Rajapaksa family name. Fees paid by the public to use the stadium were diverted to the family's private foundation account, creating a

fiscal opportunity cost: every dollar spent on the maintenance of an unproductive vanity project could have been used to service existing Chinese loans. The Rajapaksa administration became more dependent on quick, less bureaucratic bilateral loans from the PRC to build vanity projects, and so when grace periods elapsed and the elite lacked the domestic funds to repay Chinese loans, they would administratively make foreign policy concessions, necessitating the sacrifice of Sri Lanka's foreign policy autonomy to obtain debt concessions and less stringent debt-repayment terms. The ruling class of Sri Lanka was thus responsible for misusing infrastructure loans, delaying debt repayment, and diverting taxpayer money to vanity projects rather than paying down debt. This transactional opportunity cost left them in a position where they needed to adopt less austere debt-repayment measures to repay what they owed. As a result, to further emphasise their desire for less stringent debt-repayment terms, the ruling class consciously shifted the country's foreign policy to align with China's, thereby compromising foreign policy autonomy. Therefore, it can be asserted that while Sri Lanka was financially exploited to some extent, the country's ruling class did have some decision-making agency. The Sri Lankan government viewed the loss of foreign policy autonomy as a monetary cost paid to secure domestic power.

CONCLUSION

Taken together, this paper's findings suggest that Chinese lending practices have played a significant role in constraining Sri Lanka's foreign policy autonomy. The evolution of Sri Lanka's foreign policy from the early 2000s to 2017 corresponds with an increase in financial dependency and bilateral loans from the PRC. Moreover, changes in Sri Lanka's UN voting pattern and diplomatic behaviour suggest a steady alignment of its foreign policy with the PRC's tactical interests, driven by excessive Chinese loans. This paper concludes that the nature of Chinese loans (short maturity periods, less red tape, and high interest rates) made Sri Lanka both attracted to the loans in the first place and eventually financially dependent on them to finance infrastructure projects. This paper concludes that Chinese loans created a structural financial dependency that ultimately prevented Sri Lanka from determining its own autonomous foreign policy, as the country needed to align its foreign policy with China's to renegotiate debt terms and make debt repayment easier. However, this paper also notes that the state is not a monolith and that Sri Lankan elites were partially involved in the compromise of the country's foreign policy, as they actively agreed to predatory loans and chose to trade foreign policy autonomy for greater favour from their creditor nation.

Sri Lanka serves as an example of how carefully planned asymmetric economic relationships can translate into the eventual loss of a country's foreign policy autonomy and decision-making capabilities. Loans from powerful creditor nations are administered with the intention of spreading strategic influence and gathering support for foreign policy agendas rather than having a positive grassroots-level impact on LEDCs. Smaller states need to prioritise sustainable debt management alongside military statecraft and diversify their international lending partnerships to avoid becoming fiscally dependent on a single creditor nation. This way, LEDCs can retain their foreign policy autonomy amid rising geopolitical tensions, rather than becoming client states with weakened decision-making power.

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