



Pathfinder Economic Alert

China-Sri Lanka Economic Affiliations: Trends and Opportunities

Eventhough historical relationships between Sri Lanka and China date back over about 20 centuries based on shared religious and cultural values, the economic links and formal diplomatic relations were started in 1950s. Currently, Sri Lanka is having an enduring, multi-dimensional and deep-rooted relationship with China. The long-standing ties of closeness between the two countries are underpinned by mutual trust and confidence. A close identity of views and mutuality of interest remain the hallmark of bilateral economic ties. 1952 Sino-Lanka rubber – rice pact and 1962 the First Agreement on Economic and Technological Cooperation are very important formal relations among them. More recently, economic and political ties have been strengthened between the two countries culminating in the establishment of formal diplomatic relations. The economic agreements signed in 1982; Sino – Lanka Joint Trade Committee and Sino – Lanka Economic and Trade Cooperation Committee were amalgamated in 1991 as the Sino-Lanka Joint Commission for Economic and Trade Cooperation. Further, Sri Lanka-China Business Cooperation Council was formed in 1994 and 8 bilateral agreements and Memorandum of Understanding (MOUs) were signed in 2007 on the occasion of golden jubilee celebrations of diplomatic relations between two countries.

In 2009, the Central Bank of Sri Lanka and the China Development Bank signed an Investment Facilitation Agreement with the objective of promoting investments between two countries. It is impressive to see that throughout the 50 years since the establishment of formal diplomatic relations, China has provided assistance for Sri Lanka's economic development in many ways, while Sri Lanka has also assisted China on several instances.

China represents one of the fastest growing economies in the world and is the leading Asian exporter of textiles and garments to the USA and European Union countries. Despite, the negative trade balance of Sri Lanka, the bilateral trade between China and Sri Lanka continues to grow from both exports and imports perspectives.

Table: China-Sri Lanka Trade Relations

Year	Exports to China (US\$ Mn)	Imports from China (US\$ Mn)	Trade Balance (US\$ Mn)
2005	29.4	630.6	-601.2
2006	25.4	779.7	-754.3
2007	34.2	923.8	-889.6
2008	46.8	1,091.5	-1044.7
2009	56	1,029	-973
2010	72	1,240	-1,168
2011	103	2,092	-1,989
2012	113	2,667	-2,554

Source: Annual Reports, Central Bank of Sri Lanka.

As shown in the above table, total trade between the two countries has been steadily increasing over the years and has more than doubled between 2005 and 2012. While imports from China have grown at a faster rate than exports, exports to China from Sri Lanka also have grown over the last decade. When these figures are further enlarge with Hong Kong and China together they provide Sri Lanka's 2nd largest source of imports (US\$ 3,272) (Central Bank of Sri Lanka).

Sri Lanka's major exports to China include raw coconut coir, apparels, tea, natural rubber, diamonds and precise stones, titanium ores and concentrates and bicycles and other cycles. Sri Lanka's major imports from China include electrical machinery and equipments, boilers and machinery and parts, cotton, iron or steel and its articles, man-made staple fibers, knitted or crocheted fabrics, fertilizers, railway locomotives and inorganic chemicals. Imports of railway locomotives have recorded significant increases after 2006. Sri Lanka exports to China and Hong Kong accounted for 2.3% of total Sri Lanka exports in 2012, whereas Sri Lanka imports from China and Hong Kong accounted for 17.1% of Sri Lanka imports. China continued to be Sri Lanka's 2nd largest trading partner in 2012.

As mentioned above, China has entered into several trade agreements with Sri Lanka. More recently in 2009, an investment facilitation agreement was signed by the China Development Bank and the Central Bank of Sri Lanka, under which the China Development Bank places a US Dollar deposit with the Central Bank of Sri Lanka, while also working towards long-term economic ties between the two institutions. In addition to the above mentioned trade agreements and programmes aimed at strengthening bilateral ties, China has also been a major provider of aid, loans, technical assistance, and has contributed towards numerous large-scale infrastructure development projects in Sri Lanka. Such contributions made by China will be helpful in various ways for Sri Lanka's future economic development. These relationships will create many opportunities in thrust areas such as employment creation, regional development, foreign exchange earnings, promotion of private investments, income distribution, technological developments, and social well being and will enhance the socioeconomic development of Sri Lanka as a small developing country.

The Asian region comprises some of the fastest growing economies in the world. China is the country that achieved the highest growth rate around past two decades. Together, Asian countries form a huge market that is growing faster than any other region and it could form a vibrant regional grouping that would roughly be the size of the EU in terms of GDP.

Among the Asians, China is the giant. Therefore, formation of the relationships with China will help the Sri Lankan economy to achieve socioeconomic targets. As a small country, Sri Lanka should set its eye on such a mega initiative without dissipating its resources too much on stagnant past agreements with other countries. Sri Lanka should fully focus on existing and future China-Sri Lanka Bilateral trade agreements and convert it to a deeper and broader agreement via a Comprehensive Economic Partnership. With deeper economic integration with China, Sri Lanka can not only benefit from the fast growth of China but also benefit from a huge market and resources for future programmes. It will be an initial effective economic building block of Sri Lankan economy.

Presently, China provides considerable export market opportunities that causes from huge middle class demand, a source of foreign direct investment into Sri Lanka, a source of affordable imports, important potential source of tourism and a steady flow of aid and economic assistance. The affectionate and close friendly cultural and historical links enjoyed between the two nations have build upon in enhancing above economic relations further. Therefore, as China continues to flourish in the world economy, Sri Lanka should see this as positive chance for future economic development in the country. The China–Sri Lanka relationship is an excellent instance for ‘big nation–small nation relations’ with mutual benefits experienced by both nations. With so many ‘missed opportunities’, Sri Lanka should make up for past failures by making use of this emerging opportunity properly.

This is the Sixty Third Economic Alert of Pathfinder Foundation authored by Dr. Ariyaratthna Herath, Senior Lecturer, Economics and Statistics, University of Peradeniya, on behalf of Pathfinder Foundation. Readers’ comments are welcome at www.pathfinderfoundation.org