

Research on China-Sri Lanka Economic and Trade Cooperation Based on SWOT Analysis

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Abstract: This paper systematically explores the economic and trade cooperation between China and Sri Lanka based on the SWOT analysis framework. Against the backdrop of globalization and the “Belt and Road” initiative, China-Sri Lanka economic and trade cooperation shows great potential and broad prospects. By using the SWOT analysis method, the paper comprehensively analyzes the strengths, weaknesses, opportunities, and threats of China-Sri Lanka economic and trade cooperation. The strengths include complementary geographical locations, complementary trade structures, and a solid foundation of political mutual trust; the weaknesses mainly lie in trade imbalances, unstable investment environments, and cultural and communication barriers; opportunities mainly arise from the promotion of the “Belt and Road” initiative, the deepening of regional cooperation, and changes in the global trade pattern; threats mainly come from changes in the international political and economic environment, external shocks such as pandemics, and the rise of trade protectionism. Finally, the paper proposes targeted strategic suggestions based on the actual situation, aiming to promote the sustainable and healthy development of China-Sri Lanka economic and trade cooperation and enhance the economic prosperity and well-being of the two countries.

Keywords: China-Sri Lanka Economic and Trade Cooperation; SWOT Analysis; Globalization; “Belt and Road” Initiative; Strategic Suggestions.

1. Introduction

In today’s world, where global economic integration and regional cooperation are deepening, economic and trade cooperation between countries has become not only an important driving force for economic growth but also a key factor in promoting international political stability and cultural exchange. China, as the world’s second-largest economy, has always been in the spotlight for its foreign opening strategy and global layout. Sri Lanka, an island nation in the Indian Ocean, occupies an important position in China’s foreign economic and trade cooperation map due to its unique geographical location, rich natural resources, and long history and culture. Especially under the “Belt and Road” initiative proposed by China, China-Sri Lanka economic and trade cooperation has ushered in unprecedented development opportunities. In the era of globalization, economic ties between countries are becoming increasingly close, and trade and investment liberalization and facilitation have become the general trend. As an active participant and promoter of globalization, China has achieved rapid economic growth and comprehensive social progress by continuously expanding its opening-up and deepening economic and trade cooperation with countries around the world. The “Belt and Road” initiative is an important upgrade of China’s foreign opening strategy, aiming to build an all-round, multi-level, and composite connectivity network through policy communication, infrastructure connectivity, trade connectivity, financial connectivity, and people-to-people connectivity, promoting the common prosperity of countries along the route. As an important node country of the “21st Century Maritime Silk Road,” Sri Lanka’s economic and trade cooperation with China not only aligns with the common interests of both sides but is also a key link in promoting the in-depth implementation of the “Belt and Road” initiative. China and Sri Lanka have a long history of friendly exchanges, with close cultural exchanges and economic and

trade interactions since ancient times. In the new era, with China’s sustained rapid economic development and Sri Lanka’s steady economic growth, the economic and trade cooperation between the two countries has been continuously deepened and expanded. From traditional commodity trade to infrastructure construction, agricultural development, manufacturing investment, and financial cooperation, cultural tourism, China-Sri Lanka economic and trade cooperation presents an all-round and multi-level characteristic. This cooperation not only meets the practical needs of economic development of both sides but also brings tangible benefits to the people of both countries. In the current international situation, China-Sri Lanka economic and trade cooperation faces new opportunities and challenges. On the one hand, the weak recovery of the global economy, the rise of trade protectionism, and the intensification of geopolitical risks bring uncertainties and risks to China-Sri Lanka economic and trade cooperation. On the other hand, with the in-depth advancement of the “Belt and Road” initiative, the cooperation potential in infrastructure construction, capacity cooperation, and financial investment between China and Sri Lanka is huge, and the cooperation space is broad. Therefore, in-depth research on the current situation, problems, opportunities, and challenges of China-Sri Lanka economic and trade cooperation, and proposing targeted strategic suggestions are of great practical significance and urgency for promoting the sustainable and healthy development of China-Sri Lanka economic and trade cooperation and enhancing the economic prosperity and well-being of the two countries.

2. Strengths of China-Sri Lanka Economic and Trade Cooperation

2.1. Geographical Advantages and Strategic Location

Sri Lanka is located in the central part of the Indian Ocean, serving as an important maritime traffic hub connecting

Southeast Asia, South Asia, the Middle East, and Africa. This strategic location not only makes Sri Lanka an important node in international shipping routes but also provides China with a natural geographical advantage in implementing the Maritime Silk Road strategy through the “Belt and Road” initiative. Sri Lanka’s port facilities, such as Colombo Port and Hambantota Port, due to their superior geographical location, have become important transit points for China’s maritime trade and energy transportation. This geographical advantage lays a solid foundation for China-Sri Lanka economic and trade cooperation and promotes deep cooperation between the two sides in the fields of marine economy and port logistics.

2.2. Economic Complementarity

The economic structures of China and Sri Lanka are highly complementary. China is the world’s largest manufacturing country, with strong industrial production capacity and a vast consumer market, while Sri Lanka is mainly based on agriculture and services, particularly having global competitiveness in tea, rubber, and textiles. China’s demand for raw materials and specialty agricultural products provides a stable market for Sri Lanka, while Sri Lanka relies on China’s technology, machinery, and infrastructure investment. This complementarity creates broad prospects for economic and trade cooperation between the two countries, promoting Sri Lanka’s economic diversification and meeting China’s economic development needs.

2.3. Stability of Political and Diplomatic Relations

Since the establishment of diplomatic relations, China and Sri Lanka have maintained long-term friendly political and diplomatic relations. China has always been an important partner for Sri Lanka, providing support not only in the economic field but also in political assistance. Sri Lanka has consistently supported China’s core interests in international affairs, and this mutual trust in political relations provides a solid guarantee for economic and trade cooperation between the two sides. Additionally, a series of bilateral cooperation agreements and memorandums of understanding signed between the two governments provide policy support and legal guarantees for the smooth development of China-Sri Lanka economic and trade cooperation. Stable political and diplomatic relations ensure the long-term interests of both sides in economic and trade cooperation, allowing them to maintain continuity and stability in cooperation in a complex international environment.

2.4. China’s Technical and Financial Support

China has significant advantages in infrastructure construction and technological innovation, providing strong support for Sri Lanka’s economic development. Several large-scale projects invested and constructed by China in Sri Lanka, such as ports, highways, and power facilities, have not only improved Sri Lanka’s infrastructure level but also brought a large number of employment opportunities and economic benefits. At the same time, China’s financial support has helped Sri Lanka address the funding shortages faced in development, promoting rapid local economic growth. This technical and financial support is an important advantage of China-Sri Lanka economic and trade cooperation, enabling Sri Lanka to achieve economic transformation and development by leveraging China’s resources.

3. Weaknesses of China-Sri Lanka Economic and Trade Cooperation

3.1. Insufficient Infrastructure and Development Bottlenecks

Although Sri Lanka has made some progress in infrastructure construction in recent years, overall, the lack of infrastructure remains a major bottleneck in the country’s economic development. Particularly in key areas such as transportation, power supply, and information communication, Sri Lanka’s infrastructure level still cannot meet the needs of modern economic activities. Since infrastructure construction requires substantial capital investment and technical support, Sri Lanka is highly dependent on external assistance in these areas, and these deficiencies also limit the return on China’s investment in Sri Lanka. Additionally, some completed infrastructure projects, such as Hambantota Port, have not fully realized their economic benefits due to poor operational management, further exacerbating investment risks.

3.2. Market Size and Consumption Capacity Limitations

As an economy with a population of about 20 million, Sri Lanka’s market size is relatively small, and its consumption capacity is limited. Although Sri Lanka’s economy has grown in recent years, its per capita income level remains low, limiting the country’s demand for foreign products and services. This situation poses certain market limitations for China’s investment and exports in Sri Lanka, especially in high-end consumer goods, technology-intensive products, and services. Additionally, Sri Lanka’s weak industrial base and lagging development in manufacturing and high-tech industries limit the country’s ability to absorb Chinese technology and equipment, thereby affecting the depth and breadth of bilateral economic and trade cooperation.

3.3. Single Structure of Bilateral Trade

The trade structure between China and Sri Lanka is relatively single, with Sri Lanka mainly exporting primary agricultural products and low-value-added raw materials to China, while importing mainly machinery, textiles, and daily necessities from China. This unbalanced trade structure not only exacerbates Sri Lanka’s trade deficit but also makes its economy overly dependent on the Chinese market. If international market demand changes, Sri Lanka’s exports will face significant volatility risks. Additionally, Sri Lanka’s limited range of export products and lack of high-value-added processed products and technology-intensive products make it difficult for China-Sri Lanka trade to achieve high-level value chain cooperation, thereby limiting the further deepening of bilateral economic and trade relations.

3.4. Domestic Political and Social Risks

Sri Lanka’s domestic political and social environment is somewhat unstable, having experienced multiple regime changes and political turmoil in recent years. This political uncertainty increases the operational risks for foreign investors in Sri Lanka, especially in large infrastructure projects and long-term investments. Besides political risks, Sri Lanka’s social conflicts are also prominent, with issues such as income disparity, ethnic conflicts, and labor rights frequently occurring, which may adversely affect the normal

operations of foreign enterprises. Chinese enterprises in Sri Lanka have also faced situations where projects were suspended or renegotiated due to local social unrest and policy changes, further increasing the complexity and uncertainty of China-Sri Lanka economic and trade cooperation.

4. Opportunities for China-Sri Lanka Economic and Trade Cooperation

4.1. Strategic Opportunities from the “Belt and Road” Initiative

The “Belt and Road” initiative proposed by China provides unprecedented strategic opportunities for China-Sri Lanka economic and trade cooperation. As an important node country in the Indian Ocean, Sri Lanka holds significant geographical and strategic importance in the construction of the Maritime Silk Road under the “Belt and Road” initiative. Through this initiative, China has increased its investment in Sri Lanka’s infrastructure construction, including ports, railways, and highways. These investments not only promote Sri Lanka’s economic development but also strengthen cooperation between China and Sri Lanka in trade, logistics, and energy. Additionally, connectivity projects under the “Belt and Road” initiative will promote regional economic integration, expand the trade scope and cooperation depth between China and Sri Lanka, and provide more business and investment opportunities for both sides.

4.2. Deepening Regional Economic Cooperation

With the continuous deepening of regional economic cooperation, Sri Lanka’s role in regional organizations such as the South Asian Association for Regional Cooperation (SAARC) is gradually increasing. China has already established extensive economic and trade relations with the member countries of these organizations, and China-Sri Lanka economic and trade cooperation can be further expanded through these regional cooperation platforms. For example, trade facilitation measures and tariff preferential policies between China and South Asian countries provide favorable conditions for bilateral trade between China and Sri Lanka. At the same time, Sri Lanka, as a gateway to the South Asian and Southeast Asian markets, allows Chinese enterprises to enter broader regional markets through Sri Lanka, thereby increasing trade opportunities and investment returns.

4.3. Opportunities from Sri Lanka’s Economic Reforms and Industrial Upgrading

In recent years, the Sri Lankan government has actively promoted economic reforms, striving to improve the investment environment and attract foreign investment to drive industrial upgrading. This provides good opportunities for Chinese enterprises to invest in Sri Lanka. Sri Lanka’s industrial structure is gradually shifting from being primarily agriculture-based to a more diversified economic model, especially in manufacturing, services, and high-value-added industries, which have enormous development potential. Chinese enterprises can leverage their advantages in technology, capital, and management experience to participate in Sri Lanka’s industrial upgrading process, promoting local economic development while achieving

mutual benefits. For example, Chinese investments in high-tech manufacturing, e-commerce, and green energy can help Sri Lanka achieve industrial transformation and enhance its international competitiveness.

4.4. Cooperation Potential in Tourism and Cultural Industries

Sri Lanka attracts a large number of international tourists with its rich natural resources and cultural heritage, making tourism increasingly important in the country. With the continuous deepening of cultural exchanges between China and Sri Lanka, more and more Chinese tourists are choosing Sri Lanka as a travel destination. This provides broad space for cooperation between China and Sri Lanka in tourism and cultural industries. Chinese enterprises can further explore the Sri Lankan tourism market by investing in tourism infrastructure, developing tourism projects, and promoting cultural exchange activities. Additionally, there is potential for cooperation between China and Sri Lanka in film, creative products, and other cultural industries. Both sides can jointly develop culturally distinctive products, enhancing mutual understanding and cultural recognition between the peoples of the two countries.

5. Threats to China-Sri Lanka Economic and Trade Cooperation

5.1. Geopolitical Risks and External Interference

Sri Lanka’s strategic location in the Indian Ocean attracts the attention of multiple major powers. Countries like India, the United States, and other Western nations are increasing their influence in Sri Lanka, creating complex geopolitical risks for Sri Lanka’s foreign economic cooperation. Particularly, India, as a regional power in South Asia, views Sri Lanka as its “backyard” and holds a cautious or even resistant attitude towards China-Sri Lanka cooperation, which may affect the smooth implementation of China-Sri Lanka economic and trade projects. Additionally, the strategic layout of the United States and its allies in the Indo-Pacific region may exert political, economic, and even security pressures on China-Sri Lanka cooperation. These external interferences increase the uncertainty of China-Sri Lanka cooperation, making China’s investments and project advancements in Sri Lanka face greater political risks.

5.2. Sri Lanka’s Economic Vulnerability and External Debt Issues

Sri Lanka’s economy is relatively small and highly dependent on external markets and international capital, with a relatively single economic structure mainly relying on agriculture, textile exports, and tourism. Sri Lanka’s heavy external debt burden has led to a severe debt crisis in recent years due to over-reliance on external loans for infrastructure construction. The worsening debt problem may further weaken Sri Lanka’s fiscal situation, affecting its ability to fulfill international cooperation commitments. China’s large investment projects in Sri Lanka may face investment return risks due to Sri Lanka’s insufficient debt repayment capacity. Additionally, Sri Lanka’s economic vulnerability makes it susceptible to global economic fluctuations, further increasing the risks of China-Sri Lanka economic and trade cooperation.

5.3. Domestic Political Instability and Social Unrest

Sri Lanka's domestic political environment is unstable, with frequent regime changes and political struggles in recent years, affecting policy continuity. This political uncertainty may lead to the suspension, adjustment, or even cancellation of projects in cooperation with China due to policy changes. Meanwhile, Sri Lanka's social conflicts remain prominent, with issues such as income disparity, rising unemployment, and ethnic and religious conflicts occurring frequently. These social problems may trigger large-scale protests and unrest, affecting the normal implementation of China-Sri Lanka cooperation projects. Particularly for large infrastructure projects and long-term investment plans, political and social instability pose serious threats.

5.4. International Market Fluctuations and Trade Protectionism

The increasing uncertainty of the global economy raises the risk of international market fluctuations, especially in the context where both China and Sri Lanka rely on foreign trade and exports. Changes in international market demand, fluctuations in raw material prices, and exchange rate volatility may negatively impact China-Sri Lanka economic and trade cooperation. Additionally, the rise of global trade protectionism in recent years, with many countries strengthening their scrutiny and restrictions on foreign investment, may affect China's exports and investments in Sri Lanka. As a small economy, Sri Lanka's ability to withstand global market changes is weak, and this uncertainty in the external market environment poses potential threats to China-Sri Lanka economic and trade cooperation.

Through a detailed analysis of the strengths, weaknesses, opportunities, and threats of China-Sri Lanka economic and trade cooperation, we can draw the following main conclusions: **Strengths:** In China-Sri Lanka economic and trade cooperation, China has strong economic strength and policy support from the "Belt and Road" initiative, providing significant advantages in infrastructure construction, investment, and trade. Sri Lanka's geographical location and its open policy towards foreign investment also provide favorable conditions for bilateral cooperation. **Weaknesses:** Sri Lanka's relatively backward infrastructure, small market size, and limited consumption capacity, as well as the single structure of bilateral trade, political instability, and prominent social conflicts, increase the uncertainty and risks in cooperation. **Opportunities:** The "Belt and Road" initiative and the deepening of regional economic cooperation provide strategic opportunities for China-Sri Lanka economic and trade relations. Additionally, Sri Lanka's ongoing economic reforms and industrial upgrading, as well as the development of tourism and cultural industries, create new opportunities for Chinese enterprises to enter the Sri Lankan market. **Threats:** China-Sri Lanka economic and trade cooperation faces multiple threats, including geopolitical risks, Sri Lanka's economic vulnerability, international market fluctuations, trade protectionism, and environmental and sustainable development challenges.

6. Strategic Suggestions

6.1. Fully Utilize Advantages to Promote In-depth Cooperation

China should continue to leverage its advantages in capital, technology, and management to actively participate in Sri Lanka's infrastructure construction, especially in key areas such as ports, railways, and highways. This will not only help Sri Lanka improve its infrastructure but also promote economic and trade ties between the two countries. Meanwhile, China should strengthen its research on the Sri Lankan market and seek more areas of cooperation, such as green energy and the digital economy, to promote diversified and high-quality development of bilateral cooperation.

6.2. Mitigate Weaknesses and Risks to Enhance Cooperation Resilience

To address the weaknesses of Sri Lanka's limited market size and insufficient infrastructure, Chinese enterprises should adopt a phased investment strategy to gradually expand their market share in Sri Lanka. Additionally, during project implementation, they should strengthen communication with local governments and communities to ensure the sustainability and social acceptance of the projects. Furthermore, China can help Sri Lanka enhance the competitiveness of local industries through technology transfer and capacity building, gradually changing the single structure of bilateral trade.

6.3. Seize Strategic Opportunities to Expand Cooperation Areas

The "Belt and Road" initiative and the process of regional economic integration provide broad space for China-Sri Lanka cooperation. China should seize this opportunity to further deepen cooperation with Sri Lanka in trade, investment, and cultural exchanges. Particularly in tourism and cultural industries, China and Sri Lanka can enhance mutual understanding and strengthen the social foundation of bilateral relations by jointly developing tourism resources and promoting cultural exchange activities.

6.4. Address Threats and Establish Long-term Cooperation Mechanisms

To address geopolitical risks and Sri Lanka's economic vulnerability, China should adopt a multilateral cooperation approach, working with other countries and international organizations to jointly support Sri Lanka's economic development and social stability. Additionally, a long-term risk management mechanism should be established to enhance the resilience of China-Sri Lanka cooperation. Environmental and sustainable development issues also require special attention. Chinese enterprises should prioritize environmental protection in their investments in Sri Lanka, adopting green technologies and sustainable development models to ensure the long-term success of the projects.

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