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China's Activities in Island States: Sri Lanka as a Case

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As strategic locations in the Indo-Pacific region, island states such as Sri Lanka, Maldives, Mauritius, and Seychelles receive heightened attention amid growing competition between large powers. Adopting a smaller-state analytical lens, this issue brief examines China's major activities in Sri Lanka across economic, military, and diplomatic domains. Bilateral cooperation remains stable, and China has been a critical provider of support when Sri Lanka desperately needed military and diplomatic assistance during and after its civil war. Sri Lanka's need for such assistance has waned since the end of war in 2009, yet China remains a major trade and infrastructure development partner. Sri Lanka needs China's partnership as it rebuilds its economy since the 2022 debt default. Island countries can learn from Sri Lanka when considering their domestic needs as developing countries, as well as their concerns about large powers like China. Sri Lanka's experience has become a cautionary tale for island states, like Maldives, Mauritius, and Seychelles, determined to maintain their agency and survival in the contested Indo-Pacific.

Introduction

China's rise globally continues to be of increasing interest and concern since the turn of the 21st century. As strategic locations in the Indo-Pacific region, island states such as Sri Lanka, Maldives, Mauritius, and Seychelles have received heightened attention amid growing competition between large powers such as the United States, China, and India.[1] In particular, the various types of cooperation that smaller states have with large powers like China are of concern. This issue brief examines China's major types of activities in island states, using Sri Lanka as a case study. It intentionally analyzes the topic from the perspective of the island state, rather than China to identify patterns in the Sri Lanka-China relationship and help international observers better understand the opportunities—as well as the risks—that island states face when working with China.

Stable bilateral cooperation, with areas to watch

Trade

Sri Lanka's economic relations with China have been growing. This trend over recent decades has been well documented and observed not only bilaterally but also in China's growing integration into the global economy. Regarding trade, China was Sri Lanka's largest import partner at roughly $5 billion in 2025, but its ninth-largest export destination at only $279 million in 2025.[2] Bilateral trade with China is increasing, but the imbalance gives China a persistent and significant advantage. In 2025, the eighth session of the Joint Commission for Economic and Trade Cooperation took place in Colombo between the two countries, in which continued cooperation was discussed, including under the Belt and Road Initiative framework.[3]

However, Sri Lanka's top exporting country remains the United States. Exports are a powerful way for Sri Lanka to earn foreign currency and boost its exchange reserves. In fact, the island state defaulted on its debt in 2022 after spending down its foreign exchange reserves. The extent to which Washington's imposition of tariffs will affect bilateral trade is unclear at the moment. Nevertheless, China's continues to benefit from its bilateral trade with Sri Lanka as its largest import source.

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Another important way for Sri Lanka to earn income is through tourism. In 2025, Sri Lanka earned about $3.2 billion in total tourism revenue.[4] For overseas markets, China was the fifth-highest source of tourists in 2025 with 132,035 tourists visiting Sri Lanka. China was significantly behind India with more than half a million tourists and the United Kingdom with roughly 210,000 tourists, respectively; Russia and Germany also ranked ahead of China in 2025, though by smaller margins.[5]

Watch for Sri Lanka to possibly finalize a free trade agreement (FTA) with China. FTA discussions between Sri Lanka and China began more than a decade ago, but have yet to produce an agreement. However, the island state of Maldives implemented its FTA with China after a long delay under the new leadership of President Mohamed Muizzu. Given that the Maldives did not receive significant pushback from India when the FTA went into effect in 2025, Sri Lanka may wish to resume momentum on its own stalled FTA.

Infrastructure development

China has been a major partner in Sri Lanka's infrastructure investment and financing for roughly two decades. Even before Beijing launched its One Belt, One Road (OBOR) in 2013, it had been a key development partner for Sri Lanka for a decade earlier.[6] For its part, Sri Lanka was an early supporter of China's Belt and Road Initiative (BRI) among South Asian countries and relied on Chinese financing and construction expertise for infrastructure projects such as Hambantota Port. The idea that Sri Lanka

became ensnared in a Chinese "debt trap"[7] began to take root in the media as strategic competition heated up between large powers like the U.S. vs. China and India vs. China.

However, research and analysis have found little evidence of a Chinese debt trap in Sri Lanka. In fact, the much-discussed Hambantota Port agreement, which established a Chinese-majority joint venture in 2017, resulted in the influx of about $1 billion in foreign direct investment to Sri Lanka—actively seeking to boost foreign currency reserves, address balance-of-payment problems, and repay loans.[8] Sri Lanka's debt problems went beyond bilateral loans from China due to the larger "trap" of Sri Lanka's middle-income transition and resulting loss of access to concessional financing.[9] For example, Sri Lanka increasingly turned to international sovereign bonds, which constituted 40 percent of the country's external debt by 2019.[10] Moreover, Sri Lanka was impressed by China Merchants Port Holdings' role in developing Colombo Port's South Container Terminal and hoped for similar results at Hambantota Port.[11]

While there is better understanding now about the different types of Chinese financing, island states have benefited from adopting more cautious approaches to Chinese-backed infrastructure development and considering alternative partners. After all, the Chinese-majority joint venture negotiated a 99-year lease to operate Hambantota Port rather than a significantly shorter one. As an island state, Sri Lanka certainly possessed the agency to conclude the agreement, but China's state-owned enterprises must consider that the large power bears certain responsibility for how it conducts infrastructure development partnerships with smaller states—especially those experiencing economic difficulty. Furthermore, China's delay in helping Sri Lanka with debt restructuring after the country defaulted in 2022 was additional evidence to smaller countries, including island states, of the risks that accompany the potential benefits of working with China on infrastructure development.

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Watch for developments in Sri Lanka's Colombo Port City project. With $1.4 billion in investment financing, Colombo Port City is gradually coming together with housing and other projects being built along Colombo's waterfront on reclaimed land. The Sri Lankan government is working with China Harbour Engineering Company (CHEC). However, there is a basis for concern that infrastructure projects financed by China may be having an impact on Sri Lanka domestically via gaps in the country's laws and regulations.[12] The development of Colombo Port City, or another project funded by a Chinese state-owned enterprise, could pose regulatory complications if insufficiently addressed such as via the establishment of Special Economic Zones (SEZ).

Defense

Defense cooperation has been a significant part of Sri Lanka's relationship with China given Colombo's wartime needs during its conflict with the Liberation Tigers of Tamil Eelam (LTTE), which lasted from 1983 to 2009. When

the United States and India declined to provide lethal support due to humanitarian concerns, Sri Lanka's military dependence on China grew. However, the end of the civil war in 2009 led to a reduction in Chinese weapons sales to Sri Lanka. More recently, notable Chinese military equipment supplied to Sri Lanka has included a retired frigate (advanced offshore patrol vessel) donated and delivered in 2019, six PT-6 training aircraft valued at roughly $5 million in total and delivered in 2018, and two light-transport Harbin Y-12IV aircraft at $18 million delivered in 2023.

Instead, China's willingness to offer training and educational opportunities to Sri Lankan military officers remains a significant aspect of current defense cooperation. While China paused invitations to Sri Lankan officers during the COVID-19 pandemic, it resumed offering training opportunities in late 2022.[13] This area of defense cooperation is likely to continue. Beyond standard defense interactions and senior leader engagements, China's ambassador to Sri Lanka, Qi Zhenhong, recently highlighted his country's RMB 10 million in disaster relief assistance after Cyclone Ditwah struck the island in 2025.[14]

> ***"Visits by China's state-owned ships to Sri Lanka's ports remain an unresolved and controversial issue. India's continued complaints resulted in Colombo imposing a one-year moratorium in January 2024 on port visits by all research vessels. Nearly three years later and after a change of presidential administration, the moratorium remains in place.***

Visits by China's state-owned ships to Sri Lanka's ports remain an unresolved and controversial issue. When the *Yuan Wang 5* satellite-tracking ship visited Hambantota port in 2022, the visit raised alarm bells in India about the information the vessel could collect. The visit by the *Shi Yan 6* research vessel to Colombo port in 2023 also rang alarm bells.[15] For example, a CSIS analysis found that this "vessel is operated by the South China Sea Institute of Oceanology, a research institute that has provided technical and logistical support for China's militarization of the South China Sea."[16] India's continued complaints to Sri Lanka about China's ship visits resulted in Colombo imposing a one-year moratorium in January 2024 on port visits by all research vessels while it further examined the controversy. Nearly three years later and after a change of presidential administration, the moratorium remains in place. Generally, Sri Lanka has deferred to India's strongly expressed security concerns rather than pursuing its own preferred course of action regarding China. This deference reflects Sri Lanka's asymmetric power relationship with India and its threat perceptions of India, which have been informed by past experiences of adverse consequences.[17]

Watch for Sri Lanka to finalize its standard operating procedure for visiting ships. Sri Lanka developed this document in response to India's concerns about the presence of visiting Chinese research ships at its ports. As of August 2026, the document has yet to finalized and approved for implementation. The extent to which Sri Lanka will permit—or not permit—China's visiting government-owned and military ships going forward will be of considerable interest to observers.

Diplomacy

On balance, Sri Lanka's relations with China have been positive since the 1950s.[18] They were at their warmest during the term of President Mahinda Rajapaksa, who sought Beijing's help to rebuild the country after the 26-year civil war. At the highest levels of diplomacy, Sri Lanka hosted President Xi Jinping in 2014 during the final year of Rajapaksa's presidency. It had been roughly 30 years since a Chinese president, Li Xiannian, had last visited the country in 1986. For island states, a head-of-state visit from China is a highly significant diplomatic engagement. In this regard, Xi has also visited Maldives, Seychelles, and Mauritius. More often, however, leaders from island countries visit China. For example, Sri Lanka's President Anura Kumara Dissanayake made a state visit to China in 2025.

Beyond standard bilateral engagements, China's diplomatic assistance to Sri Lanka stood out nearly two decades ago amid international criticism of Colombo's wartime operations against the LTTE which resulted in civilian casualties. Despite the findings of a UN report in 2011,[19] China was eager to support Sri Lanka in opposing human rights resolutions at the time and has continued to do so in recent years.[20] This was especially with respect to U.S.-sponsored resolutions about Sri Lanka at the UN. More recently, however, there is evidence of reduced U.S. and Indian attention to Sri Lanka's human rights record.[21] As a result, this shift has diminished China's diplomatic advantage in relations with Sri Lanka.

Watch for China to identify an issue where it can demonstrate steadfast diplomatic support for Sri Lanka. It is not clear yet what such an issue might be going forward, but Beijing has previously been eager to showcase its consistent support for Sri Lanka in public forums. To the extent that public opinion is taken into account by leaders when conducting foreign policy, views of China are quite high with nearly three-quarters of Sri Lankans (72%) seeing China as favorable (either very or somewhat).[22] Public opinion remains a possible untapped resource for Beijing in its diplomacy, albeit an indirect one.

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Conclusion

This issue brief has examined China's major activities in Sri Lanka across economic, military, and diplomatic domains, suggesting that bilateral cooperation remains largely stable. The elements of this cooperation can help observers derive insights from Sri Lanka as a case study of island states and their relations with China. To date, China as a major power has stood out as a critical provider of support when Sri Lanka desperately needed assistance. Examples include Beijing's willingness to provide military and diplomatic support to Sri Lanka when the island country was fighting a civil war and facing criticism from

international partners, including the U.S., at the UN. Yet, Sri Lanka's need for Chinese assistance has waned since the end of the war in 2009 and its aftermath, thereby diminishing China's potential advantage in these areas.

More importantly, China remains a critical trade and infrastructure development partner for Sri Lanka. While continuing to welcome investment opportunities, President Dissanayake has not indicated a desire to embrace China as tightly as the Rajapaksas did during their presidencies. Nevertheless, Sri Lanka needs China's partnership as it rebuilds its economy and tries to overcome the fallout from the 2022 debt default.

Island states can learn from Sri Lanka when considering their domestic development needs as developing countries, as well as their concerns about large powers like China. To a great extent, island countries like Maldives, Mauritius, and Seychelles have learned from the narrative surrounding Sri Lanka, even when media stories did not present critical details or sufficient context about the country's economic and strategic circumstances. Regardless, Sri Lanka's experience has become a cautionary tale for island states determined to maintain their agency and ensure their survival in the international system. Their leaders are now alert to the tale and have drawn lessons about preventing outcomes that are detrimental to their national interests when working with China, whose influence continues to grow in the Indo-Pacific.

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