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The Critical Evaluation of the China- Sri Lanka Economic Relationship

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Abstract:

China and Sri Lanka have a very close relationship from the ancient time. Sri Lanka was a prominent place in ancient Silk Road. The cultural and religious effects make an impact on economic relationship of these two countries. The official economic relationship was started on 1957 in the period of late Prime Minister Mrs. Sirimavo Bandaranayake. The relationship has been growing for more than 5 decades. China helped Sri Lanka in different serious situations. Especially during the Elam war period, China helped Sri Lankan government in numerous ways. The China- Sri Lanka first agreement was the Sino-Lanka agreement which is activated more than 30 years. Currently China becomes Sri Lanka biggest investor. The Chinese government started different development projects in Sri Lanka. This research is to understand the mutual benefits for the two countries and the challenges. This research is largely descriptive and author used qualitative data for the subsequent analysis. Data was collect by the different resources such as news articles, research papers, working papers, conference reports and etc. China has become a treat to the world with their growing economy and new economic projects, But Sri Lanka should use it as an opportunity towards country development. If Sri Lankan government uses it brainy, they can expand their exports and develop the tourism to large number of countries. China has built a path for Sri Lankans to develop their economy. Even though Sri Lanka is a small country compared to China, there are numerous situations which Sri Lanka helped to Chinese government. Though there are so much of Challenges the economic relationship will expand and develop in future decades.

Keywords: Historical relations, Sino-Lanka agreement, Chinese investments, Imports and Exports, One belt one road

1. Introduction

China is one of world fastest economic growing country. China expands their economic relations all over the world. China has the economic agreements mainly with Middle East and Africa. Sri Lanka is one of main country in South Asia which has a long term official relationship more than 5 decades. The China- Sri Lanka economic relationship started with the religious and the cultural impacts. Fa-Hien Buddhist monk from China is one of main person who made path to China and Sri Lanka strong relationship. From the very ancient time lots of Chinese businessmen visited Sri Lanka and there are still villages called Chinese village in urban cities. Sri Lanka became a significant point in the ancient Silk Road with the location. It helped Sri Lanka to be known country in all over the world. This situation helped Sri Lanka to have a huge export market.

There was a rice shortage in Sri Lanka 1952 after the death of Prime –Minister D.S Senanayaake. During this period China faced the problem of importing rubber. The first China-Sri Lanka agreement was to solve the rice and rubber shortages. This is one of very successful trade agreements in the world which proceed more than 3 decades. Then the next agreement was china-SL-FTA which renewed more than four times. Currently China becomes the Sri Lanka biggest investor. China has invested all the developing projects in Sri Lanka. The biggest is Colombo port city project. Due to the concept of Chinese Sri Lanka is going to become the trade hub in Indian Ocean.

Sri Lanka is still in a developing situation. Sri Lanka is 81st trading country and 115th world most complicated economical country. Sri Lanka is developed in the various areas such as Education health and agriculture. It is the highest literate country in south Asia and one of highest among developing countries. China- Sri Lanka relationship is long term and expanding more. Sri Lanka has developing negative trade balance with China. This situation is coming more serious. Sri Lanka expands their exports every year but it is not more than 2%.

This research is to fulfill the literature about the China- Sri Lanka Economical relationship and find out its benefits challenges and future prospects.

1.1. Research Objective

Even though China – Sri Lanka have a long term relationship for many more decades there are very few and specific literature about this countries relations. This research is mainly to fulfill the gap of literature and to critically understand about the long term relationship. The co objectives are to understand the mutual benefits and Challenge. The researcher deeply concerned to indicate the depth of the relationship and the long term prospects of Sri Lankans.

1.2. Research Methodology

This research is largely descriptive. The Author used various data collecting methods for the critical analysis. The research based on qualitative data which collected through news articles, publish articles, statistical reports, economist speeches and working and published papers.

2. Theoretical foundation

2.1. The Historical Background of the Economic Relationship

In very ancient times Sri Lanka followed the eastern traditions learning was considered as value of treasure. Sri Lanka is a country with impact of Indians. So Sri Lanka had a king controlled society. So the ancient Indian men had the priority of all sectors as well as education too. The Sri Lanka became the control of portages in 1505 and Dutch 1698 and the finally British colony in 1796 so this gave an influent to the whole system in country. So the education system also handled by them. Sri Lanka became an independent country on 4th July 1948. Till then Sri Lanka was a British Colony. The British rules and other cultural things effected to all the sectors in Sri Lanka. In 1972 Sri Lanka became a republic and in 1978 an executive presidency model was government was adapted.

China and Sri Lanka relation is more than 20 centuries. Sri Lanka is in a very prominent place in the Indian Ocean and it called as the pearl of Indian Ocean. As Sri Lanka is an island in Indian Ocean it was very famous among Greek and Arab sailors, she became a port of call and an emporium of the maritime trade between the West and the East. The location of the country caused to the trade relationship of many countries. In ancient time the trincomalee and the Galle ports were well-known ports by the Middle East, European and the Chinese businessmen. Contacts with China too can be traced back to an early date, and the Ambassadors who called on the Court of Claudius in the first century had commented on the commerce that generally prevailed between Sri Lanka and China. Among the numerous foreign visitors to Sri Lanka who left behind records of their impressions which are so useful to reconstruct the island's history from ancient times are several accounts from China which give evidence of the early relations between Sri Lanka and China, so far away in the East, By the second quarter of the sixth century clearly Sri Lanka had emerged as the Centerport of the sea trade between the West and the Far East^[2]. Chinese vessels, and ships from other lands of the Far East, came into the harbors of Sri Lanka conveying their cargoes of silk especially while from the West to arrive vessels and the merchandise of the Persians.

In the ports of Sri Lanka these mariners from distant lands as well as merchants from India exchanges their goods and also purchased the products of Sri Lanka. So the China Sri Lanka relationship was started before many decades.

With the location of the Sri Lanka it became a prominent in the Chinese marine Silk Road. The Silk Road or Silk Route was an ancient network of trade routes that for centuries were central to cultural interaction through regions of the Asian continent connecting the East and West from China to the Mediterranean Sea this linked the regions of ancient commerce. The greatest value of the Silk Road was the exchange of culture. Art, religion, philosophy, technology, language, science, architecture, and every other element of civilization was exchanged through the Silk Road along with the commercial goods the merchants carried from country to country. The goods carried on the Silk Road moved basically form the east to west. The Silk Road was not only to export Silk at the initial stage of the Silk Road development. Chinese received expensive horses of Lucerne and graces. Chinese discovered for themselves other agricultural crops sting beans, onions, cucumbers, carrots, various woolen goods carpets, curtains blankets and rugs came to china from central Asia and Mediterranean. Central Asia exported camels which were very appreciated in China.

Fa-Hein the celebrated Chinese Buddhist pilgrim traveler sojourned in Sri Lanka poring over the assiduously studying Buddhists texts. Fa-Hien's journey to Sri Lanka was by way of Tibet crossing the Himalayas near the river Indus. Subsequently was sailing on the Hoophly on a vessel bound for Sri Lanka. In his chronicles, he records that he was greatly moved to find silks here from native China and to witness a Chinese merchant offer a silk fan to a Buddha Image in Anuradhapura^[4].

By this time the island was known to the Chinese as Sihaladvip Contemporary Chinese records maintain that Persia bound vessels from China traded in gems, spices and ivory at the flourishing port of Mantota. (The Hambanthota harbor) Ivory was highly valued in China where expert Chinese Craftsman turned out exquisite carvings^[5]. Friendly relationship between China and Sri Lanka turned sour for some period in the early part of the fifteenth century when a Chinese expedition led by general Cheng-Ho on a directive of the emperor sought to obtain the tooth and Bowl relics of the Buddha from Sri Lanka. Since the episode of Heng-Ho friendly relations were resumed between the two countries and intermittent tribute was sending to China from 1346-1445. There were a great relationship with Chinese and Sri Lankans from the very early ages and Chinese tradesmen of varying skills who settled in the island set up business in several coastal towns in Galle where place names such as Chinese section (Cheena Koratuwa) are reminiscent of the early presence of their progenitors

^[2]. 11 July 1405 to 2 October 1407 consisted of 317 ships and 27,870 men and arrived in Sri Lanka possibly at the coast near Ambalangoda at a location given as Cini- Gama (or Chinese Village) in the records.

In the course of the Third expedition, Cheng-Ho caused to be set up in the southwest of Sri Lanka a stone slab dated 15 February 1409 and bearing inscriptions in the Chinese , Persian and Tamil language to the Buddha , Allah and Hindu deity. This slab was found in Galle in 1911 and currently lies in the National Museum in Sri Lanka. There is an influence of Chinese to the Sri Lankan language

with the records. For instance Sini a word used in Contemporary Sinhala for Sugar may indicate that at one time this food was imported from China.

Much more records in Historical relationship between China and Sri Lanka and it run for decades.

2.2. *The China Sri Lanka Diplomatic Relationship and Trade Agreements*

The diplomatic relationships are running to the late Prime Minister Sirmavo Bandaranayake the first female Prime minister in the world. The visits of official delegations from the People's Republic of China, during the period of late Mrs. Srimavo Bandaranayake was significant point for the long –continuing traditional friendly relationship between the two countries. That was the first time when official delegations from China visited Sri Lanka. The China and Sri Lanka formally established the diplomatic relationship in 1957. With Guidance of the five principles of peaceful coexistence of Sri Lanka, and the newborn People's Republic of China Worked together to promote sustainable development of the friendly relationship between the two countries. In January 1950, Sri Lanka acknowledged China and in 1952 the two sides opened a new chapter in bilateral economic and trade relationships with the signing of SINO- Lanka rubber rice pact.

1952- Sino- Lanka rubber-rice pact

1962- First agreement on Economic and Technological Cooperation

1963- Maritime agreement between China and Sri Lanka

1981- Formation of Sri Lanka – China Society

1982- Signing of Sino- Lanka Joint trade committee

1984- Signing of Sino – Lanka Economic and trade cooperation committee

1994-Formation of Sri Lanka –China Business Cooperation Council

2007- Landmark state visit to China by president Rajapaksha on occasion of golden Jubilee Celebrations of diplomatic relations where 8 bilateral agreement & MOU were signed

2009 – Signing of an investment facilitation agreement between the China Development bank and Central bank of Sri Lanka

These were the agreements between China and Sri Lanka. The first agreement was the Sino- Lanka agreement. This was a very impactful agreement to Sri Lanka. It was undoubtedly most useful trade agreement negotiated by Sri Lanka and one most successful and durable trade agreement in the world. As this agreement having been in operations for thirty years, it is therefore useful to assess the significance of the agreement and refresh the memories regarding the circumstances that led to it and the person who played the key role^[7].

There was a rice shortage in Sri Lanka after the death of D.S Senanayake. Then the new government was committed at that time of period every adult person with two measures of rice per week at a subsidized prize. But the rice was not available with the traditional suppliers. Burma, Thailand and Indo-China and the world market process and rice had risen by 38% during 1951-1952. In this situation, Sri Lanka compelled to buy 60,000 tons of rice from USA and 10,000 tons from Ecuador at high prices. Even though this variety of rice was not suitable for Sri Lankans plate^[7]. However Sri Lanka was not in a position to by rice at a high price. The country was facing foreign-Exchange crisis during this period caused by a dramatic fall in the exports prices brought by the quick and end of Korean War boom.

During 1951-1952, the prices of natural rubber declined by 36% of tea by 10% and coconut oil by 40%. Import prices increased by 8% and terms of trade fell by 28%. There was a trade surplus of 345 million rupees^[1]. During this period the minister of Commerce in Sri Lanka found out that China was prepared to sell rice to Sri Lanka to exchange for rubber. During this time China was unable to obtain rubber as a result of prohibition of rubber export from Malaya following a U.N resolution preventing the sale of rubber to China. So China wanted rubber as bad as Sri Lanka needed rice. So the Sri Lankan government quick to reliable the mutual benefits of trade with China and negotiated the Ceylon China trade agreement or the rubber rice pact in being end of 1952.

2.3. *The Benefits of the First Agreement between China and Sri Lanka*

The Significance of the Ceylon – China trade agreement lies in the positive benefits Ceylon received during the thirty years of its duration. Those benefits exceeded expectation as China expressed their gratitude to Sri Lanka for supplying rubber when other producers were not prepared to do.

In 1953 the premium over world market price for rubber was estimated between Rs.8 and Rs. 95 million in 1953 alone. It was about 56% more than the world market price in that year. The handing charge of 5cants per IB, in 1953 was equal to Rs.100 per metric tat Or Rs. 54 million 50000 metric tat or 5 million for 50000 metric tons of rubber. The Change and quantity varied from year to year.

The sales of rice by China to Sri Lanka at prices below the world market resulted in net benefit at about Rs. 92 million in 1953 China never tried to exploit the rice market to their advantage. As a result of agreement a grant about Rs 125 million was executed by China during 10 years period. 1958-1968 to meet part of the costs of rubber replanting, 1000 of acres uneconomic rubber land here revitalizing our rubber industry^[7]. Also Sri Lanka found an assured market for rubber also diversified exports and imports markets. The trade agreement laid foundation for expanding trade between Sri Lanka and China. This was begun to expand the relationship between two countries leaps and bounds. This caused to establish the diplomatic relations in 1957 between China and Sri Lanka.

Finally , Ceylon China trade agreement and closer commercial and economic relations laid the foundations for a firm friendship between Sri Lanka and China which was strengthen expanded and cremated by the Bandaranayake governments. China friendship for Sri Lanka has been demonstrated not only in trade and economic cooperates, but also in times in National crisis.

There was only China to warn other countries to keep their hands off Sri Lanka at the height of the Indo-Lanka crises in the June-July 1987. So this friendship was not lasted and it moved to many years and China and Sri Lanka had many more agreements.

2.4. *The Recent Relations between China-Sri Lanka*

The Sino- Sri Lanka relationship was fundamentally transformed in 2005 by the president Mahinda Rajapaksha. Unlike many South Asian Capitals, India had shielded from Chinese influence, Colombo established cordial, if limited diplomatic ties with Beijing by the late 20th century, even importing arms from China in the 1990s ^[6]

* February 17, 2015- China one belt one road and Sri Lanka agreement

* March 14, 2015-Chinese take a bath as Sri Lankan port project scrutinized plus the debate over the cep's and NCP wraps up

* March 26, 2015-the current President Sirisena renewed agreement about the Colombo City Port project

* March 12, 2016- Sri Lanka's Port City project is back in business, Sri Lanka will resume major (and conventional) development project.

* May 9 2016 – China jewels in the heart of the Indian Ocean. The Colombo port city project was 100% undertaken by the Chinese government.

* December 09 2016- Sri Lanka quest for strategic prominence in the Indian Ocean at the discussion in the Galle, Sri Lanka tries to carve out a role for itself in the south Asia littorals

The China- Sri Lanka Free Trade Agreement

2.5. *China Supported Sri Lanka during the Period of War*

During the war time in Sri Lanka in 2006, Sri Lanka got support from India. In 2006, Delhi quietly gifted President Rajapaksha 5 M1-17 helicopters and aided efforts to target LTTE personal supplies and floating arsenals at sea. But at the same time the Indian government supported LTTE. So the Delhi balked at request for more robust military support. Concerned about the human rights violation in the Elam conflict Washington has "drastically reduced its foreign assistance package for Sri Lanka" ^[6].

During this hard situation China helped Sri Lanka. China gladly filled the void in the defense realm. In 2007 President Mahinda Rajapaksha secured a \$ 37 million deal for Chinese ammunition and ordinance ^[16]. In Elam War China was liberally supplied requisite to Sri Lankan troops to defeat the LTTE. China provide Jian-7 fighters jets, anti aircraft guns, type 85 heavy and type so light machine guns, type 56 rifles , 152mm howitzer, 81mm motor shells , RPG 7 rockets and large quantities ammunition. Sri Lanka justified arms procurement from China on two counts lack of option and price worth.

3. The Trade Relationship between China and Sri Lanka

3.1. *Sri Lanka Principal Trading Partner*

China will always be a principal trading partner of Sri Lanka. In 2009 China including Hong Kong accounted for 13.4% total imports as compared to 11.1% from India and Japan. As regards exports however, China and Hong Kong accounted for only a very small amount only 1.2% of Sri Lanka total exports

China represents one of the fastest growing economies in the world. China is the leading Asian exporter of textiles and garments to the US and EU. China is carrying out economic reforms to modernize the country, but whatever economic and social systems China may build and whatever changes in leadership and policies it may have its friendship with the old friend Sri Lanka is unlikely to remain intact as in the past.

3.2. *The Trading Relations*

The bilateral trade between China and Sri Lanka to grow the balance of trade has been accordance to the trading strength of the two nations. During the 2005, the Sri Lanka exports to China was 29.4 million usds and the imports was 630.6 million usds. The negative trade balance was 601.2. But the situation is becoming more serious during the past few years. Even though Sri Lanka exports expanded for 46.8% the China imports were increased 1091.5 the negative trade balance is 1044.7. Due to the central bank reports of Sri Lanka, with above trading data Sri Lanka owes millions usds to China ^[11].

Sri Lanka major exports to China include raw coconut coir, apparel items, tea - flavored or non flavored, natural rubber, diamonds and other precious stones, titanium ores and concentrates and bicycle and cycles ^[1]. During period of time the exports of raw coconut coir and apparel items significantly increased in 2008 and during the past 10 years the coconut coir exports were expanded. As far as economic engagement is concerned, the volume of trade between China and Sri Lanka reached nearly \$ 2.1 billion in 2010 and grew further to \$ 3.14 billion in 2011. Sri Lankan exports were mere \$153 million as against China's \$ 2989 billion. The balance of trade is hugely in favor of China. But Sri Lanka government is not complaining in this point.

Exports of bicycles and cycles have gained prominence from 2007. Sri Lanka major imports from China includes electrical machinery and equipment , 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 or tramways locomotives have increased significantly after 2006.

Sri Lanka exports to China amounted to \$ 304.5 million. The top exports are Ships boats -\$122.7 million, Coffee tea and spices -\$ 34.4 million, Clothing (not knit or crochet) -\$ 27.7 million, Footwear - \$ 20.9 million, Paper yarn woven fabric -\$ 20.4 million, Ores slag ash \$ 9.6 million, Rubber - \$9 million, Electronic equipment - \$6.9 million, Chemical goods- 4.4 million ^[11]

During the period the Sri Lankan exports were changed and it was grown. But the China import growth is faster than Sri Lanka. Sri Lanka top imports from China are electrical machinery and equipment - \$ 130.57 million, Boilers and machinery and parts - \$ 113.58 million, Cotton - \$102.81 million, Iron or steel and its articles - \$93.86 million, Manmade staple fibers - \$ 64.56 million, Knitted or

crocheted fabrics - \$ 56.22 million, Fertilizers, railway, tramways locomotives -\$27.48 million, in organic / organic chemicals -\$19.19 million and coated covered or laminated textile -\$18.17 million^[11]

3.3. Role of APTA in Expanding Trade Relations

The three giants in the Asia Pacific trade agreement namely Korea, India and China. They are prepared to recognize Sri Lanka as least developed country(LDC) and give its near zero (90%) duty concessionary entry to their markets on an average under certain traffic lines a commerce department (CD) official said , in speaking at a seminar on trade agreements and said that currently the duty concession is around 20%^[6]

Sri Lankans and China are both members of APTA (formally Bangkok agreement) a preferential trade agreement where members give each other a margin of preference (MOP) over the general tariff (MRN) level. This is a potential avenue by which trade between the two counties can be significantly expanded, but has thus far been under- utilized. Under APTA,^[1] China already provides tax concessions for over 1700 products import from Sri Lanka at a MOP of 27% which covers around 50% of total exports to China from Sri Lanka. These concessions are expected to increase to cover 2000 export product in future.

However the usage tariff concessions by Sri Lanka exports are very low- Sri Lanka used less than 5% of preferential tariff lines granted by China. Out of APTA eligible exports 15% in completely untouched by Sri Lanka exports. Important export items including titanium ores and concentrates and retreaded or used tires receive no preference under APTA^[15]. The major exports of Sri Lanka such as tea and coconut products receive MOPS of 50% and 20% respectively, but the reduction in duty for the latter is from 5% to 4% which marginal. APTA will provide ample opportunities for business expansion, sourcing and attracting FDI to Sri Lanka. Most local exports are not aware APTA concessions awareness among exporters about the APTA agreement in order to increase its usage.

3.4. The Chinese Investment and Aids in Sri Lanka

Total Chinese FDI to Sri Lanka in 2008 was almost 1.9 billion rupees compared to 1239 million rupees in 2006. China and Hong Kong provided 4th largest source of FDI in to Sri Lanka. There are lots of Chinese projects are started in Sri Lanka. Presently 16 major Chinese businesses have invested in garment, leather, telecom and electronics manufacturing facilities in the island. These sectors all have significant importance in Sri Lanka economy as expand items and as having a role in overall economic performances. All Chinese entrepreneurs who invest a minimum of \$25 millions are provided with a Sri Lankan passport on the basis of a second home passport. China most popular Huawei Technologies have heavily invested in Sri Lanka and all Sri Lankan telecom companies have agreements with Huawei Technologies.

Name of Enterprise	Activity	Realized investment Rs. Million	Employment
Tigo (pvt. Ltd)	Cellular mobile tel service	23168.9	463
Textured Jersey Lanka	Fabric and related products	5019.4	1751
Creative cycles .pvt	Bicycle export and bicycle exports	394.1	232
Collins Fashion pvt.Ltd	Apparel and textile products	212.6	636

Table 1: Leading Chinese projects in Sri Lanka under BOI
(Source: board of investment Sri Lanka)

China is investing in Sri Lanka most of the new projects as China and Sri Lanka has a very strong relationship started from old ages. China contributed the several projects as below.

- The BMICH
- Nilabe Hydropower station
- Central Mail and telegram complex
- Supreme court complex
- Gin ganga flood protection project
- Udawalawa fresh water , fish breeding and experimental station
- Polonnaruwa water supply project
- Veyangoda and Pagoda textile mills
- Restorations of Abayagiri Degeba

The China most contributed projects in Sri Lanka

- Colombo- Katunayake expressway – 24800 usd millions
- Hambanthota port development project- 100 millions
- Hambanthota bunkering facilities and development project- \$ 75 millions
- Puttalm coal power project – \$ 372.9 million
- Rehabilitation of southern breakwater and approach channels of the Panadura Harbor -\$ 5.18 million
- Housing project for public servants - \$ 22.50

The Mattala airport was fully constructed by Chinese during the period of president Rajapaksha. The Chinese invested \$190 million. The Hambanthota is one of main project of Chinese in Sri Lanka. The first phase of the port was completed in 2010 by the China harbor engineering Co.Ltd at a cost of \$360 million. It includes high quality, passenger terminal cargo handling, warehousing, bunker provisioning, maintains and repair, medical supplies and custom clearing facilities. Chinese interest in the Hambanthota is purely

commercial. However the harbor is strategically located not only for the Chinese merchant vessels and Cargo carriers from Africa and Middle East. The harbor can be used as stop over and also military fleet.

Sri Lanka relations with China have been getting stronger over past decades. Especially as western governments began cutting aid by making various allegations on human rights violations. China has announced that it will give 1 million us dollars in humanitarian aid to Sri Lanka to help civilians affected by the conflict^[1] China's provisions of 20 million yuan tents have also reached Sri Lanka. China increased its aid to Sri Lanka from a few million dollars in 2005.

China provided significant assistance following the Tsunami disaster, in Sri Lanka \$ 1, 5 million was provided monetary support and relief goods. China also undertook reconstruction projects in Tsunami- affected areas (China- SL friendship village, China-SL Red Cross village, restoration modernizing work has begun and China has agreed to provide latest railway engines and power sets. 100 railway engines and power sets. 100 railway passenger carriages have been supplied and 3 out of 15 promised power sets have already arrived. From 2007 Sri Lanka has been trying to launch a communication satellite for which China has agreed to provide financial and technical assistance. Negotiations are currently underway in reaching an agreement regarding this project.

4.1. China One Belt One Road Concept

More recently China aims to reclaim the past glory of the ancient Silk Road through its own one belt one road initiative and it is one of the boldest initiatives taken by China since becoming the one of world largest economy in the world. Belt and Road (or B&R) as communicated by the Chinese government is a concept which aims to increase connectivity between the Asian European and African continents. The intention is for this increased connectivity to enhance trade flows and long term regional economic growth and development benefiting all those involved. The belt has envisioned the creation of highly integrated cooperated and mutually beneficial sea of maritime and land based economic corridors linking EU and Asia Market. The belt and road run through the continents Asia, Europe and Africa^[19]. In 2013 China's President Xi Jinping, proposed establishing a modern equivalent creating network of railways, roads pipelines and utility grids that would link China and Central Asia, west Asia and parts of South Asia. This initiative one belt and one road, comprises more than physical connections. It aims to create the world largest platform for economic cooperation including policy coordination, trade and financing collaboration and social and cultural cooperation. Through open discussion this concept can create benefits for everyone.

The state council authorized an OBOR action plan in 2015 with two main components. The Silk Road has two main belts, economic belt 21st century and Maritime Silk road. The Silk road economic belt is envisioned as three routes connecting, China to EU via central Asia the Persian Gulf, the Mediterranean (through west Asia) and Indian ocean (via south Asia) The 21st Century Maritime Silk Road is planned to create connections among regional waterways, more than 60 countries.

The effort has already made some practical achievements, China established the \$40 billion Silk Road fund to finance these initiatives and it made investments in several key projects^[20]. China seeks to take the interests of all parties into account. So it is to generate mutual benefits, including environmental management and closer cultural exchanges. China gives full play to the comparative advantages of each country and promotes all round practical cooperation

4.2. Sri Lanka as a Major Trade Hub in Maritime Road

Sri Lanka's geostrategic position has made the target for diplomatic courting from a range of regional players including China India and Japan. During the period of Mahinda Rajapaksa Colombo had catered especially to China and openly accepted Beijing's development assistance in turn for China's development of major maritime ports.

As geographically Sri Lanka is situated in the center of modern world international shipping passage way between China, Europe Middle East and Africa. Sri Lanka has three international shipping ports which are Colombo port, Trincomalee port and New Hambantota international shipping port. Sri Lanka became one of main points in China maritime road with location. The all the exports and imports which is going to do with China, Sri Lanka is going to be a hub for them. There are lots of advantages for Sri Lankans with being a prominent point in maritime Silk Road. Sri Lanka can create an integrated web of mutually beneficial economic social and political ties. It also makes the lower distrust and enhance a sense of common security make it as the trade, opportunity such as Sri Lanka. To grow up the trade relationship among west to east countries and the different continents also a main advantage of being in the maritime Silk Road.

Sri Lanka has drawn attention as strategic advantages point in maritime as China plans to build maritime Silk Road, trade route stretching from South China Sea to Indian Ocean. For China Sri Lanka is strategically significant as it is located right in the middle of the maritime Silk Road. It will attract infrastructure development oriented funding from the Chinese government Sri Lanka will turn in to a trade hub in the Indian Ocean

4.3. Colombo Port City Project

Colombo international financial city (CIFC) is a special financial zone that is expected to become an offshore financial center. The new mini-city is built entirely on 269 hec of island reclaimed from the sea, stretching out from the coastline to the north of Colombo. Modern island the Colombo Port City is going to give modern offices world best hotels with enjoyable beaches that are willing to start international trading companies and shipping companies.

Today over 85% of China's energy (oil) from the Middle East and mineral resources from Africa transit through Sri Lanka, so the Colombo port called as "String of Pearls". The Port City is built up the five star class hotels, shopping and entertainment centers, offices and yacht club, a central boulevard, apartment complex and a mini golf courses on 252 hec or claimed land of Sri Lanka west coast. With the Colombo Port City project Sri Lanka will accept a huge economy growth with the being as a trade hub in Indian

Ocean. To develop the Colombo port China has lent \$ 400 Million for the first phase of the new port. So the Colombo port is building according to the Chinese prospects in Sri Lanka.

5. Analysis and Recommendations

5.1. Big and Small Friendship Mutual Benefits

Sri Lanka and China has a vast difference in size. And pace of economic growth between the 2 countries, China-Sri Lanka economic relationship may seem a one way street, with all benefits flowing from China to Sri Lanka, as China has contributed Sri Lanka in various ways to step up in serious situations. China invested and contributed with fully commercialized prospects.

However Sri Lanka has made its contribution in small way over these years. Sri Lanka co-sponsored the draft resolution to restore China's legitimacy in the UN in 1971; Sri Lanka signed a special agreement with China in 1997 in of Chinese admission to APTA, where both countries have benefited from tariff concessions. In early 2000, Sri Lankan government rendered valuable support for China's entry to WTO. The two countries are getting the mutual benefits of being in the relationship for a long time. Sri Lanka played an active role in helping China to obtain 'observer status' to SAARC. Sri Lanka set up consulate in Shanghai to increase its diplomatic representations in China. The consulate in Shanghai coordinated the Signing of 3 sister city agreements between Sri Lanka and eastern China, which will entail cooperation in economy, trade, science and technology and tourism and also harness resources mobilization for economic and infrastructure development and greater market access. China has been appreciative of market access. China has been appreciative of Sri Lankan unshaken support for 'one China policy'. The help offered by Sri Lanka to China after disastrous earthquake that destroyed the Sichuan province and the support extended in Beijing during the Olympics period is also important. So the long term relationship of two countries had mutual benefits of being together, even though China and Sri Lanka is not sharing the same borders, they have a good neighboring relationship.

Even though China gets some benefits, Sri Lanka can step to a great development with the investment of China. China has opened its borders to Sri Lankan tea imports. Tea exporters were encouraged to participate in a tea fair in Hong Kong as means to penetrate the huge Chinese market as tea has become one of the top exports from Sri Lanka. With this chance Sri Lanka got an opportunity to expand their team market to the world. Sri Lanka produces which have further potential in the Chinese market. Especially the product includes Gems and jewelry is rapidly mounting with the rising income of the Chinese population and Sri Lanka has MOP under APTA for this sector, which should be exploited. Not only for gems herbal products, spices, seafood, vegetables, has coconut shelled, charcoal, rubberized coir cushions.

According to the past records and details Sri Lanka has owe to China which have to pay for many more years. This is a serious situation which Sri Lanka faces. But As Sri Lanka is still developing country in south Asia; the country can use this relationship for the betterment. Chinese are started in lots of development projects in Sri Lanka; even though the projects are doing fully commercial prospect Sri Lanka still can use the benefit of being with China for a long time.

Sri Lanka is a tourism country; China is an important potential source of tourism. Tourism from China has risen from a growth of 637% in recent years. During a month nearly 200,000 Chinese are visiting Sri Lanka. Sri Lanka has pinned its hopes on Chinese visitors to boost the nations flagging tourism industry. This relationship is great chance for Sri Lankan to expand their tourism market. The other hand there is lots of Chinese entrepreneurs who need to work on the projects such as real state, fisheries, agricultural, paper manufacturing, steel, leather products and solar energy cosmetics and telecommunication. This will be a good chance for Sri Lankan businessmen to learn Chinese business concepts and have a good experience and learn how to make profitable business. The Sri Lankan manufacturing companies and the Chinese manufacturing companies can combine together and work on new manufacturing projects. As China is well developed in such areas more than Sri Lanka, Sri Lankans can gain strategic knowledge with being Chinese. The next point is, as Sri Lanka is going to be a major hub in the China maritime road it will be a biggest opportunity to step forward. Sri Lanka can expand their major exports to many countries in other continents as well. Especially Sri Lanka can make a huge market for the Sri Lankan tea, spices, gems and herbals. As Sri Lanka is one of world famous tourists' countries this will be a great chance to develop and promote Sri Lankan tourism. The government can introduce new promotion plans, holiday packages to attract more foreigners to Sri Lanka. If Sri Lanka can develop the tourist market this will be a huge impact to the economic growth.

5.2. The Critical Outlook of China Sri Lanka Long Term Relationship

Based on the analysis of the historical data and the reality there are full of expectations about the future development of China- Sri Lanka relationship. The two countries have consensus to work together for a bright future of the bilateral relationship. This will help to whole region and the world.

There are lots of positive feedbacks of this relationship Firstly the two sides should continue to maintain high level of exchanges and also enhance the scale and level of economic and trade cooperation. There can be change the imbalance of the trade structure and enlarge China's direct investments in Sri Lanka. Secondly the two countries cooperation can be managed to have a good relationship with two country people. Especially Chinese government can encourage Chinese people to visit Sri Lanka more. Thirdly the two countries can enrich the connotation of the strategic partnership. Fourthly the two countries should plan for improving the trade hub in Sri Lanka with a framework. This relationship can bring the regional peace and stability. This also makes an impact to China to promote in region and world as their engagement in to South Asia.

In this relationship there are negative impacts too. With time of this relationship the negative trade balance of Sri Lanka is increasing day by day. So this is going to be a very serious situation in near future. Sri Lankan government should have the strength to make the positive impact of this relationship. As a country huge debts make a risk of future. With the progress of Chinese tourists to Sri Lanka

there is a quite loss in the European tourist market. The government should make the possible arrangements to make the balance of tourists markets.

5.3. Conclusion

The China and Sri Lanka had a very strong and trustworthy relationship in many years. For this great relationship there was a great historical cultural background. The ancient time religious influence makes a huge impact for the understanding and the trust worthiness. Due to analysis last decades the relations were expanded more. During many serious situations China supported Sri Lanka and currently China became Sri Lanka biggest investor. Even though China has become a treat for many more countries Sri Lanka should use this as the opportunity to expand their exports and develop the economy. So this relationship will be more grown in future decades and Sri Lanka should use this to make an impact to country economy development.

6. Limitation of the Study

This research is based on China- Sri Lanka economic relationship and basically the Chinese investments aids and the trade relationships. But the future researches can be done about the cultural and religious impact on the strong relationship. The future researches can be expanding more one belt one road and Sri Lanka trade hub project. This research is a descriptive research which used qualitative data with different sources. Future researches can be done with using qualitative and quantitative methods with interview and questionnaires.

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