



# **SRI LANKA-CHINA ECONOMIC BRIEF ISSUE IV**

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# Sri Lanka-China Economic Brief Issue IV - February 2025

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# GLOSSARY OF TERMS

## **International Sovereign Bonds (ISBs)**

Foreign currency denominated sovereign bonds issued by a government to foreign investors and typically listed in a major bond trading center like New York, London and Singapore. ISBs are issued under foreign law, usually English or New York law.

## **Memorandums of Understanding (MoU)**

It is a written agreement between two or more parties that outlines how they will work together to achieve a common goal. MoUs are not generally legally binding but outline each party's expectations and intentions.

## **Expression of Interest (EOI)**

It is a formal document or letter expressing an individual or company's interest in a potential opportunity, such as a job, project, or business deal. It signals their desire to be considered without making a firm commitment at this stage and is often used as a preliminary step to assess interest before the full application or tender process begins.

## **Request for Proposals (RFP)**

It is a document an organisation uses to request bids from potential vendors or contractors, explaining the project's requirements and inviting them to submit proposals on how they would meet those needs.

## **Standard Operating Procedure (SOP)**

A set of instructions that outline how to comply with regulations and security practices.



Image courtesy of Thilina Alagiyawanna via Pexels

## KEY TAKEAWAYS

- **During President Dissanayake's visit to China, 15 Memorandums of Understanding (MoUs) were signed significantly strengthening bilateral corporation in critical areas including humanitarian aid, environmental conservation, educational collaboration, and digitisation support.**
- **A \$3.7 billion deal with Sinopec for an oil refinery in Hambantota was secured, marking the largest foreign investment in Sri Lanka's history**
- **The successful completion of Sri Lanka's debt restructuring process has led to credit rating upgrades, reflecting improved economic stability.**
- **China remains Sri Lanka's top importer, surpassing India, while the USA continues to be the country's primary export destination.**
- **Sri Lanka has lifted its one-year ban on foreign research vessels, allowing maritime research to resume while balancing regional pressures from both India and China.**



## **1. PRESIDENT AKD'S VISIT AND FUTURE CHINA – SRI LANKA RELATIONS**

President Anura Kumara Disanayake completed his second foreign visit since taking office, travelling to China in January at the invitation of Chinese President Xi Jinping. The President had just travelled to India in December. These visits indicate that the government is aware of the need to balance between the two Asian powerhouses.

The visit to China occurred was focused on deepening bilateral relations. Key sectors of discussion included trade, infrastructure, education, tourism, and maritime cooperation. Accompanying President Disanayake were senior officials including Vijitha Herath - the Minister of Foreign Affairs, Foreign Employment, and Tourism - Bimal Rathnayake - the Minister of Transport, Highways, Ports, and Civil Aviation- and H.S.K.J. Bandara, the Director General of Government Information.

During the visit, President Disanayake held discussions with key Chinese leaders, including President Xi , Premier Li Qiang, and Chairman Zhao Leji of the National People's Congress. These meetings resulted in the signing of 15 Memorandums of Understanding (MoUs) aimed at strengthening bilateral cooperation. In the MoUs, Chinese companies expressed their intent to invest up to \$10 billion in sectors such as energy, auto manufacturing, and construction. If realised, these investments can play a crucial role in Sri Lanka's economic recovery and development.

At the "Invest in Sri Lanka" roundtable held on the 16th of January, Chinese State-Owned Enterprises (SOEs), including China Communications Construction Company Ltd (CCCC), Sinopec, the Metallurgical Corporation of China Ltd (MCC), Huawei, and BYD Auto, conveyed their strong interest in expanding investments in Sri Lanka. The discussions revolved around creating new opportunities for cooperation in infrastructure development, especially in energy projects and the automotive sector. Both sides also agreed to push forward the ongoing Colombo Port City and Hambantota Port projects, with a renewed focus on green and sustainable development.

### **Sinopec Refinery Project: Sri Lanka's Largest Individual FDI**

The largest investment agreed on during the President's trip was the \$3.7 billion agreement with Sinopec for an oil refinery in Hambantota. First approved in November 2023, the Sinopec agreement represents the largest individual foreign investment in Sri Lankan history.

It is expected that this refinery will have the capacity of 200,000 barrels, with 80% of the refined oil intended for export and 20% reserved for the local market. The agreement involves refining operations, with profits shared between Sinopec and Sri Lanka. Previous criticism existed regarding Sinopec's role in petroleum distribution due to concerns over giving control of certain local gas stations to Sinopec. However, the refinery deal is seen as more beneficial because it addresses Sri Lanka's lack of modern refinery capacity to process crude oil.

Its existing Sapugaskanda refinery is small, ageing, having been built in the 1970s, and unable to handle many crude types. The agreement with Sinopec is still preliminary, with final terms dependent on resolving issues like taxes. The refinery is intended to make Hambantota a hub for oil supply in the region.

This an indication that Chinese SOEs are shifting to equity-based projects from loan-based projects, the preferred method prior to the sovereign default. Sinopec secured the contract after competitive bidding as opposed to unsolicited projects that dominated Chinese projects in Sri Lanka prior to the default. Seven companies responded to the Expression of Interest (EOIs)<sup>[1]</sup> by Ministry of Power and Energy in March 2023. However, only Sinopec and Vitol Asia in Singapore had passed the evaluation of technical committees. Both companies were asked to submit Request for Proposals (RFPs)<sup>[2]</sup>. Sinopec submitted the RFP, but Vitol Asia had communicated that they are unable to submit a proposal to the RFP. The cabinet of ministers in November 2023 approved the proposal to award the contract to Sinopec.

[1] <https://media.gov.lk/media-gallery/latest-news/3118-sri-lanka-signs-contract-agreement-with-sinopec-to-secure-fuel-supply>

[2] <https://economynext.com/sri-lankas-sinopec-shortlisted-refinery-tender-to-be-awarded-in-three-weeks-136342/>

## Adani and Balancing India

On the sidelines of this refinery investment by Sinopec, President Dissanayake also announced discussions to attract Indian investments for a refinery in Trincomalee<sup>[3]</sup> that would synchronise well with the ongoing rehabilitation of the oil storage tank farm in Trincomalee in a joint venture with the Indian Oil Corporation. This might be a move by the President to hint at the intention to balance between China and India when it comes to landmark investments. However, the recent decision on Adani's wind energy investments might offset that. Soon after his return from China, a Cabinet decision was made to cancel a previous<sup>[4]</sup> Cabinet decision on the per unit pricing for the Mannar wind power project to be built by Adani. It is not a cancellation of the project, but a review of the pricing to ensure fairness to Sri Lanka in the context that a smaller 50MW wind plant<sup>[5]</sup> got bids priced below US\$ 5 cents per unit by Sri Lankan investors. Regardless of what the final outcome maybe, the timing of the decision falling right after the China visit and the signing of a landmark Chinese investment in Hambantota made for a bad framing.

[3] <https://economynext.com/sri-lanka-discussing-oil-refinery-in-trinco-with-india-president-200288/>

[4] <https://www.sundaytimes.lk/250126/news/govt-revokes-adani-wind-power-decision-minister-denies-cancellation-585966.html>

[5] <https://economynext.com/sri-lankas-hayleys-fentons-to-get-mannar-wind-plant-at-4-65-cents-202437/>



Image courtesy of Anastasia Mihalkova via Unsplash

## 2. POST DEBT RESTRUCTURING ERA AND CHINESE LENDING

Sri Lanka successfully concluded the restructuring of its international sovereign bonds (ISBs) in December 2024 with the successful issuance of new bonds. According to the Ministry of Finance, 97% of the fund holders finalised the restructuring. The main holdout is Hamilton Reserve Bank, which holds US\$ 250 million of the ISB that was to be matured in July 2022. It remains unclear how Sri Lanka will settle the terms with the Hamilton Reserve Bank, which filed a case in the New York District Court, claiming the full amount of ISBs owed by them. China Development Bank (CDB) which was also classified as a commercial creditor and negotiating alongside the bondholders had also finalised restructuring their loans. Information is not available as to how CDB debt were restructured.



Table 1: Bonds issued after restructuring the ISBs

Type of Bond	Amount, (USD bn)	Coupon type	Coupon Repayment Period	Principal Repayment Period
Macro-Linked Bonds	1.1	Step-Up	2024-2030	2029-2030
Macro-Linked Bonds	2.1	Step-Up	2024-2033	2031-2033
Macro-Linked Bonds	1	Step-Up	2024-2036	2036-2036
Macro-Linked Bonds	2	Step-Up	2024-2038	2037-2038
Governance-Linked Bond	1.4	Step-Up	2024-2035	2034-2035
Past Due Interest Bonds	1.6	Fixed	2024-2028	2024-2028
USD Bonds for Local Option	1.1	Step-Up	2024-2038	2029-2038
LKR Bonds for Local Option	0.5	Variable	2024-2043	2036-2043

Note: Step-up coupons mean the interest paid rises over time. Variable coupons mean the interest paid is tied to another rate that can change over time, in this case the Standing Lending Facility Rate of CBSL.

Source: Ministry of Finance disclosure

**With the successful conclusion of Sri Lanka's external debt restructuring, the country officially emerged from default after more than two and a half years.**

In response to this positive dynamic, Sri Lanka's credit ratings were upgraded accordingly.

- Fitch ratings upgraded Sri Lanka's rating from RD to CCC+
- Moody's<sup>[6]</sup> upgraded Sri Lanka's rating from Ca to Caal.
- Standard and Poor<sup>[7]</sup> retained the SD rating for now given the Sri Lankan Airlines Eurobond is yet to be restructured.
- About a month later, Fitch<sup>[8]</sup> ratings also upgraded 10 Sri Lanka's banks ratings indicating that the banks were also moving towards a more stable trajectory after Sri Lanka concluded all its debt restructuring.

[6] <https://www.moody.com/researchandratings/region/asia-pacific/sri-lanka/042081>

[7] <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3273699>

[8] <https://www.fitchratings.com/research/banks/fitch-upgrades-10-sri-lankan-banks-national-ratings-affirms-five-after-scale-recalibration-21-01-2025>

As the debt restructuring negotiations were concluding, Japan – a bilateral creditor – started disbursing money for ongoing projects that had been halted during the default phase. We anticipate China to follow this practice by starting disbursements for halted Chinese funded infrastructure projects for which loan agreements are already signed. As of end-Nov 2024 no such Chinese project disbursements were reported in Department of External Resources data.

One such major project is phase one of the Central Expressway, which is funded by China Export and Import (ChEXIM) Bank. Recently, local construction contractors have raised concerns about the cost charged by the contractor Metallurgical Corporation of China (Ltd) (MCC) to which the contract was awarded. Local contractors have requested the President to cancel the contract with the Chinese SOE and award it to local contractors as they are able to carry out the project at a lower cost than MCC.

However, regardless of this request, we anticipate that the Sri Lankan government will go ahead with MCC. President Anura Kumara recently stated that one area of ongoing negotiation is on the arrears payments to the Chinese contractor for project delays. The government is hoping to negotiate to reduce those arrears payments and recommencing the project as soon as possible.

*Table 2: Major Chinese funded projects awaiting recommencement*

<b>Project Name</b>	<b>Committed Disbursed Amount (In Loan Currency)</b>
Kandy-North Pathadumbara Integrated Water Supply Project	CNY 881,183,138 (~USD 122,727,456)
Thalpitigala Reservoir Project	USD 147,900,000
Widening and Improvement of Roads and Bridges of 64.31 km in Central and Uva Provinces Project	USD 11,821,508
Central Expressway Project - Kadawatha to Meerigama	USD 937,838,904

Source : External Resource Department Sri Lanka, 2024



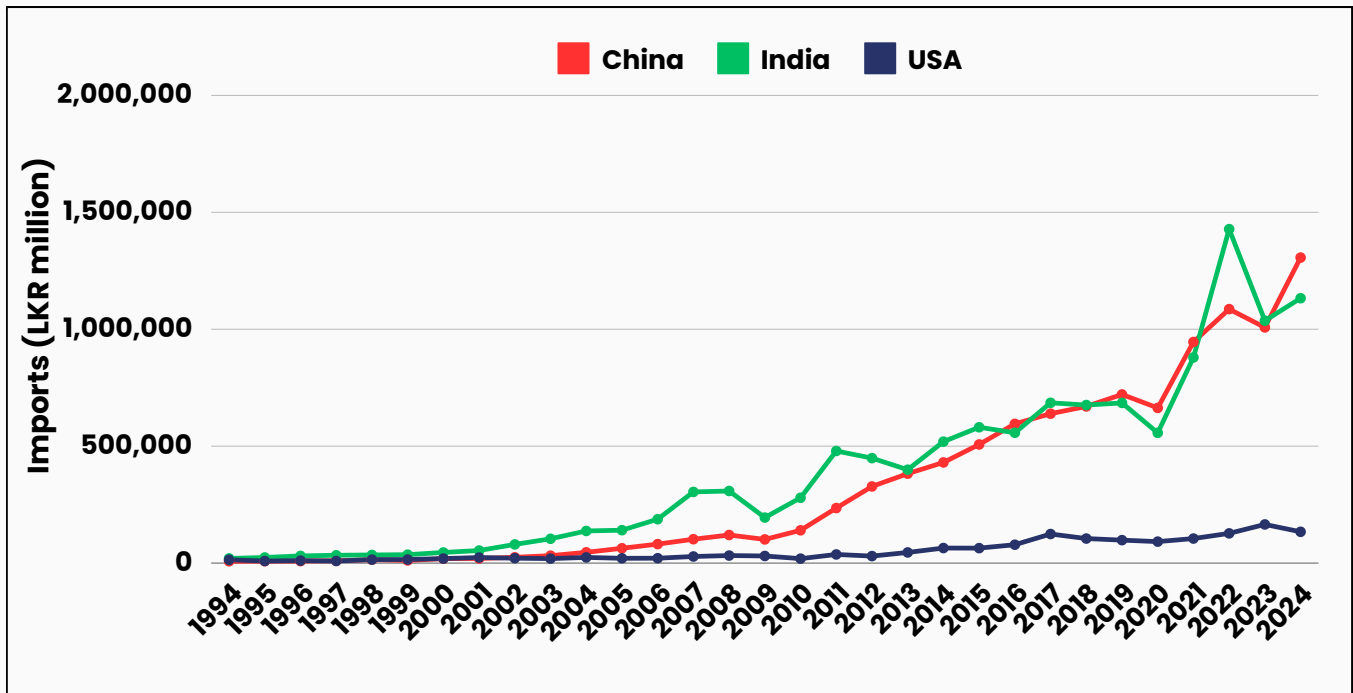
Image courtesy of jgморard via Flickr

### **3. CHINA-SRI LANKA TRADE AND INVESTMENT RELATIONS**

December 2024 Customs data allows us to confirm that China has edged out India as Sri Lanka's largest source of merchandise imports. Chinese imports, which are primarily raw materials crucial to Sri Lanka's industries, including apparel, now account for 23.7% of the country's total imports.

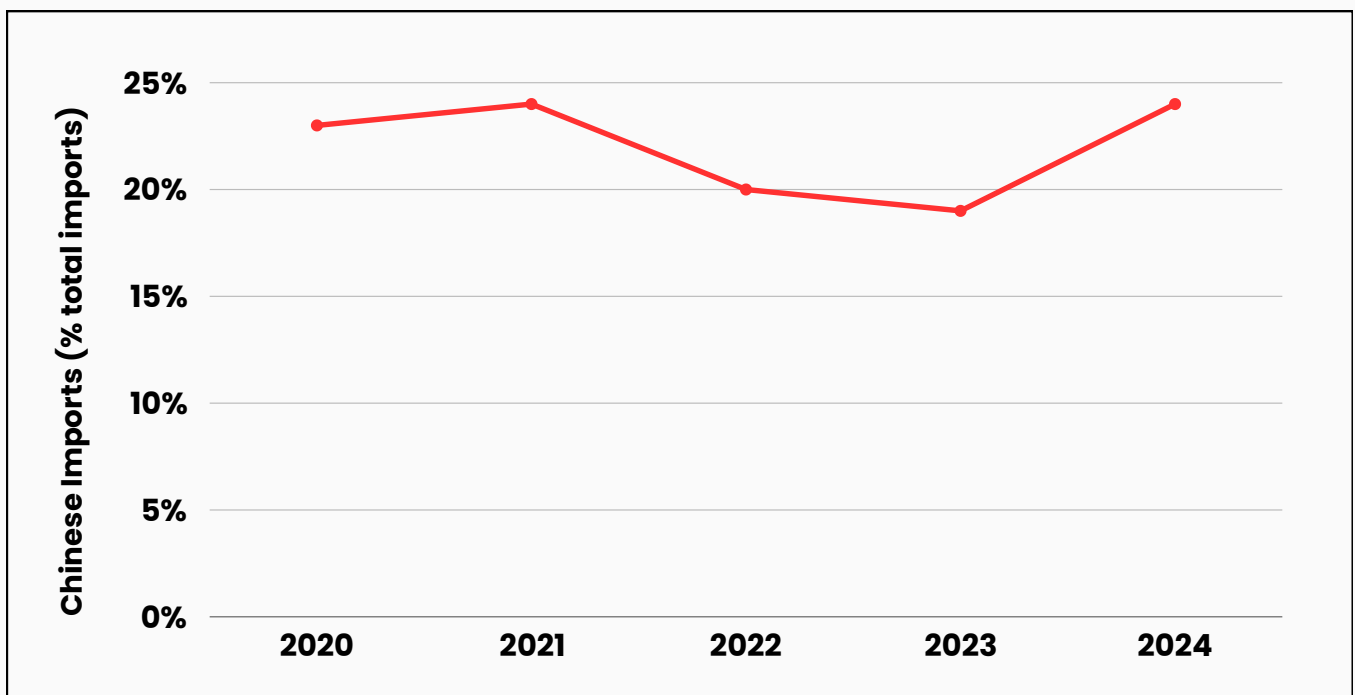
During the crisis period from 2022 to 2023, Sri Lanka saw a significant drop in imports from China, with the share falling from 23.7% in 2021 to 18.9% in 2023. Indian imports remained robust amidst the emergency import financing provided by India during the crisis. As industries and consumer demand recovered in 2024 from the crises of the previous two years, and Indian emergency credit was phased out, demand for Chinese goods appear to have picked up faster than demand for Indian goods.

Figure 1: Imports to Sri Lanka from three major trading partners



Source : Export Development Board (EDB), Sri Lanka (2024)

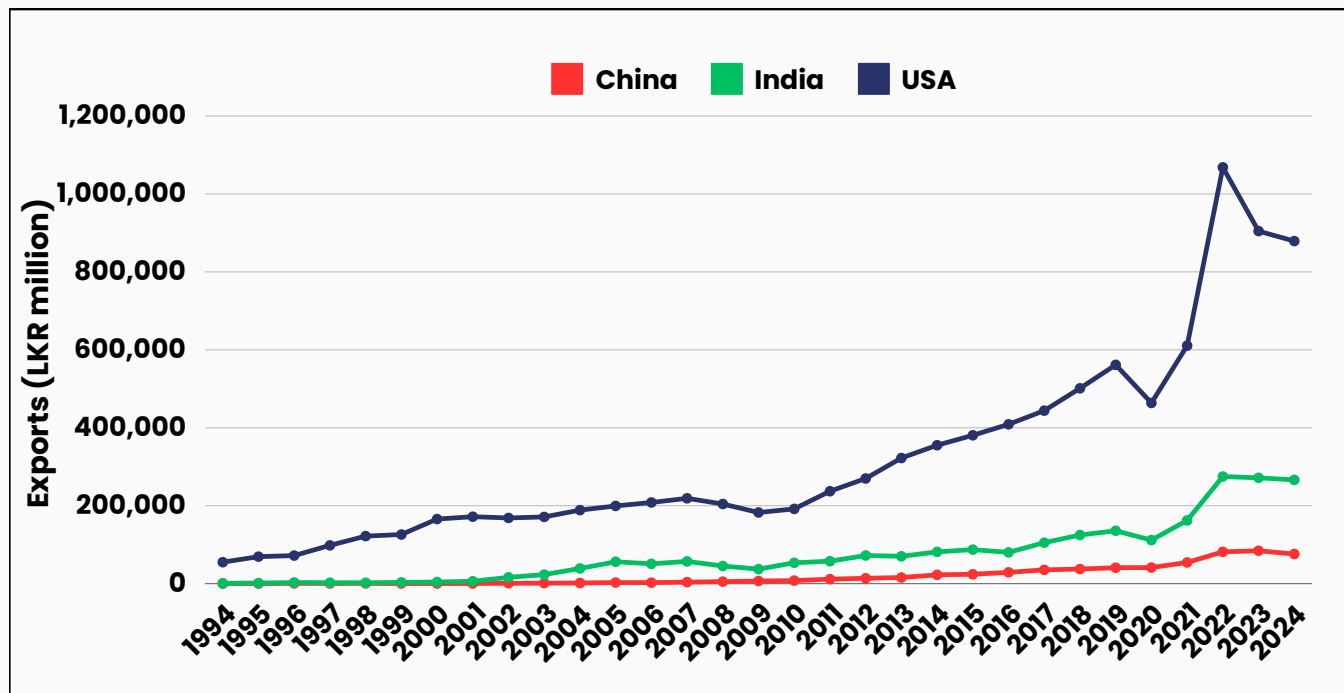
Figure 2: Imports to Sri Lanka from China



Source: EDB, Sri Lanka (2024)

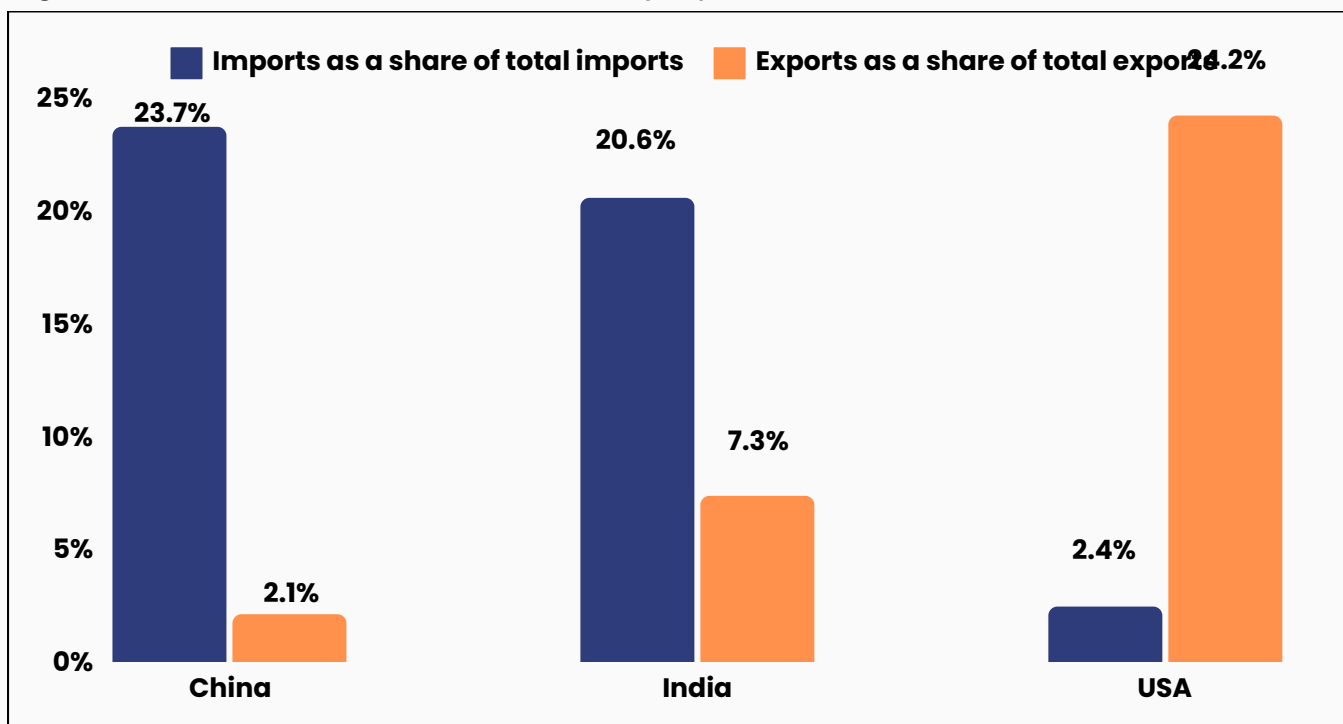
The USA remained the largest export destination with 24.2% of all merchandise exports, driven by Sri Lanka’s apparel sector. With imports from USA accounting for only 2.4% of all imports, Sri Lanka retained a large trade surplus with USA. This surplus is of course more than offset by the large deficits with India and China, imports from whom are used as inputs for Sri Lanka’s industries, investment and consumption.

Figure 3: Exports from Sri Lanka to three major trading partners



Source: EDB, Sri Lanka (2024)

Figure 4: Sri Lanka's trade with three major powers: Jan - Dec 2024



Source : EDB, Sri Lanka (2024)



Image courtesy of @anuradisanayake via X

## 4. CHINA-SRI LANKA DIPLOMATIC RELATIONS

### Diplomatic visits

Since the election of Sri Lanka's 9th Parliament, Chinese officials have engaged in key meetings with Sri Lankan leaders. In December, Vice-Chairwoman<sup>[9]</sup> of the Chinese People's Political Consultative Conference (CPPCC), H.E. Ms. Qin Boyoung, paid a courtesy visit to the Speaker of Parliament, Hon. Dr. Jagath Wickramaratne. In January, the Chinese Ambassador<sup>[10]</sup> to Sri Lanka, H.E. Qi Zhenhong, also met with Speaker Wickramaratne. These meetings conveyed greetings from China's parliamentary leadership and emphasised the importance of strengthening bilateral cooperation between the two countries.

[9] <https://parliament.lk/news-en/view/4297>

[10] <https://www.parliament.lk/news-en/view/4304>

## **Providing the complete school uniform requirement for the years 2025 and 2026**

The People's Republic of China has donated 11.8 million meters of fabric to Sri Lanka, fulfilling the entire school uniform requirement for 2025. This donation will benefit over 4.6 million students across all public schools and religious schools. The fabric is being delivered in three shipments and the final shipment was expected by December 25th. During the President's visit to China, it was agreed upon that this would continue in the year 2026 as well.

## **Resuming maritime research after Sri Lanka's one-year ban on foreign research ships**

Sri Lanka has lifted its one-year ban on foreign research vessels, reopening the opportunity for scientific expeditions with approval from the Ministry of Defence. The ban, initially imposed due to regional tensions between India and China, followed India's concerns over the presence of Chinese research ships near its strategic waters. As Sri Lanka strives to maintain neutrality, it must navigate the delicate balance between pressures from both nations.

With the moratorium ending in January 2025, China is planning to resume its maritime research activities in the Indian Ocean. This matter was part of discussions between Qin Boyoung, Vice Chairperson of the National Committee of the Chinese People's Political Consultative Conference, and Sri Lankan President Anura Kumara Dissanayake, alongside other key development projects.

Although the ban has been lifted, no parties have applied for research vessel access yet. Until a new Standard Operating Procedure (SOP) is finalised, research activities are being managed based on the existing SOP, with decisions made on a case-by-case basis. A committee will be appointed to develop the new SOP, drawing from models used in countries like Australia, Singapore, and the USA.

## **Port city developments**

President Anura Kumara Dissanayake appointed Harsha Amarasekera PC as the new chairman of the Port City Economic Commission in December 2024, alongside members Damien Amal Cabraal, Mohan Ray Abeywardena, Sanjaya Kulatunga, and Dr. Harsha Subasinghe. The Commission is tasked with overseeing investments in the Colombo Port City, a special economic zone aimed at attracting large-scale foreign investment and operating under a dollarised system.

In January 2025, Browns Investments, a unit of Sri Lanka's LOLC Group, and China Harbour Engineering Company began construction on a \$120 million luxury yacht marina in Colombo Port City. Spanning 33,776 square metres, the facility will offer berthing for up to 250 vessels and will include retail outlets, entertainment spaces, and dining options. The marina aims to position Sri Lanka as a premier stopover for yachts traveling between the Red Sea, Maldives and the Far East, filling a critical infrastructure gap in the region.

This state-of-the-art development seeks to enhance Sri Lanka's appeal as a destination for luxury and MICE (Meetings, Incentives, Conferences, and Exhibitions) tourism, capitalising on the country's strategic location on international maritime routes. It underscores Sri Lanka's commitment to boosting tourism and securing a global reputation in luxury marine tourism.



# ANNEXURE



## **President's visit to China**

### ***Humanitarian Aid***

- China provided emergency aid worth 35.7 million Yuan to support Sri Lanka's small-scale fishermen.
- Aid includes 75,000 fishing nets, 500 pre-casted houses, and 1,630 tons of rice.
- Rice and fishing nets are being distributed to selected beneficiaries.

### ***Digital Transformation Support***

- China will assist in digitising television networks and enhancing education through digital classrooms, free school uniforms, and smart boards.

### ***Major Projects and Green Cooperation***

- Both countries agreed to advance projects such as the Colombo Port City and Hambantota Port with a focus on sustainability.
- New MoU on Ocean Cooperation signed to foster a Blue Partnership between Sri Lanka and China.

### ***Renewable Energy Collaboration:***

- Sri Lanka aims to leverage China's expertise and investment in renewable energy sectors.

### ***Agricultural Export Agreement***

- Sri Lanka will export chicken to China following health and quarantine checks under a new agreement.
- China already supports Sri Lankan exports of tea, cinnamon, fruits, and aquatic products.

### ***Expanded Educational Collaboration***

- Both countries committed to student and teacher exchanges, Chinese language learning, and vocational training (Luban Workshop).
- Strengthening of scientific and technological exchanges between universities.

### ***Tourism, Disaster Prevention, and Maritime Cooperation:***

- China reaffirmed its support for Sri Lanka's tourism sector, disaster prevention, and maritime collaboration.
- China was the second-largest source of inbound tourists in 2018 but ranked fifth in 2024.

### ***Cultural and Health Sector Cooperation:***

- Cultural exchanges promoted through initiatives like the China Culture Centre and the Alliance for Cultural Heritage in Asia.
- China pledged continued assistance in the health sector, including sending medical teams and extending the Brightness Action programme.

***Economic Support and Trade:***

- China pledged RMB 500 million in grants for economic cooperation and market access for Sri Lankan agricultural products.
- Collaboration in biotechnology, plant breeding, aquaculture, and personnel training.

***Debt Restructuring and Financial Support:***

- China pledged support for Sri Lanka's debt restructuring plan, with communication between China, the IMF, and other creditors.
- The currency swap agreement between the Central Bank of Sri Lanka and People's Bank of China was extended for another three years, until 2027.



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