

A Temporal Examination of Sri Lanka's Foreign Policy

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Abstract



Located in the upper Indian Ocean, Sri Lanka is home to a rich history of various ethnicities, architectures and cultures, especially the Tamil and Sinhalese Kingdoms. While Colombo regulates an active foreign policy today, its beginnings were rather rudimentary immediately following independence from British colonial rule. After recognising the failure of protectionist trade policies in the 1970s, Sri Lanka undertook a range of vigorous reforms which transitioned its economy from inward orientation to global economic integration. Despite spending on its own domestic portfolios, Sri Lanka’s modern day investment climate is heavily saturated by Chinese foreign direct investment (FDI) in public infrastructure assets, namely airports; ports; and energy facilities. Locals have benefitted greatly from such investment but may be equally susceptible to a debt-trap paradigm resulting from the increased foreign ownership of public holdings. Even so, benefits emanating from FDI are not distributed equally amongst the populace, hence perpetuating inequality and difficulties in achieving upward social mobility for the poorer majority. Finally, two of Sri Lanka’s biggest political parties do not practice a united foreign policy. Inconsistencies in the regulation of foreign policy have delivered regressive outcomes for Sri Lanka’s developmental ambitions.

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History

Sri Lanka has a rich history marked by significant events, military conflicts, and a dynamic evolution of its foreign policy. The Island Nation's cultural heritage and stunning architecture have been shaped by the influence of local civilisations, including the Sinhalese and Tamil kingdoms. These kingdoms have made remarkable contributions to Sri Lanka's culture, leaving a lasting legacy still visible today.¹ Initially, Sri Lanka's colonisation by European powers was a seminal occurrence in the country's history. The Portuguese, Dutch, and British eras profoundly influenced the nation's societies, economies, and governance system, resulting in an enduring cultural legacy.²

Afterwards, the ethnic strife between the Tamil minority and the Sinhalese majority grew into a pivotal moment for the historical account of Sri Lanka. The protracted civil war, which originated from ethnic animosities and frustrations, caused substantial human casualties and economic destruction for almost thirty years.³ Moreover, historical events and present obstructions have influenced the development of Sri Lanka's foreign policy. Amid the Cold War, Sri Lanka initially practiced a non-aligned stance in its activities in global affairs.⁴ With the conclusion of the Cold War in the 1990s, globalisation embodied the precursor which soon saw Colombo reevaluating its foreign policy objectives to foster economic growth and security collaboration with regional and international allies.⁵ Despite that, recent foreign policy decisions by Sri Lanka include active participation in regional organisations such as SAARC and BIMSTEC, strengthening ties with neighbouring India, and forging strategic partnerships with global powers, including China, the United States, and Japan.⁶ Sri Lanka's diplomatic engagements and international standing have been significantly impacted by ongoing challenges, namely those

¹ John Clifford Holt, *The Sri Lanka Reader: History, Culture, Politics* (Durham: Duke University Press, 2011), <https://books.google.lk/books?id=eQPwYQEACAAJ&printsec=copyright#v=onepage&q&f=false>

² Shihan De Silva Jayasuriya, "Sociocultural Plurality in Sri Lanka: Interculturality and New Knowledge Systems," *Teaching and Learning in Higher Education: The Context of Being, Interculturality and New Knowledge Systems* (2021): 123-131, <https://doi.org/10.1108/978-1-80043-006-820211008>

³ Jayadeva Uyangoda, "Sri Lanka in 2009: From Civil War to Political Uncertainties," *Asian Survey* 50, no. 1 (2010): 104-111, <https://doi.org/10.1525/as.2010.50.1.104>.

⁴ Robert Oudraad, "Island of Opportunity?: A historical study on the recent change in Sri Lanka's foreign policy" (Master Thesis, University of Utrecht, 2016), 76.

⁵ Takashi Inoguchi, *The SAGE Handbook of Asian Foreign Policy* (London: SAGE, 2019).

⁶ Shakthi De Silva, "Trapped between the Dragon and South Asia's big brother: the case of Sri Lanka's "balanced" foreign policy," *Sri Lanka Journal of Social Sciences* 41, no. 2 (2018): 69-81, <https://dx.doi.org/10.4038/sljss.v41i2.7695>

about governance and human rights.⁷ These issues have strained relations with Western nations and multilateral organisations. Accordingly, Sri Lanka has demonstrated remarkable fortitude and flexibility in managing intricate geopolitical trends while safeguarding its cultural legacy and national identity throughout its history, which has been shaped by significant occurrences, disputes, and the development of its foreign policy.

Public Opinion and Perceptions

Relations between Sri Lanka and its neighbours are readily prioritised based on historical bonds, economic interests, and shared cultural values. Colombo shares a profound historical rapport and cultural similarity with India; factors that shape public opinion around the preservation of robust relations with this neighbouring superpower.⁸ Correspondingly, certain sectors of the populace have become more receptive to and supportive of Chinese investments due to the economic advantages of diplomatic relations with mainland China.⁹ Nevertheless, public scepticism regarding Chinese initiatives has intensified through apprehensions around debt affordability and supremacy.¹⁰ Further, the manner in which the government addresses public sentiment concerning global affairs is vital for successfully managing diplomacy. In addition to prioritising economic integration and strategic alliances with likeminded partners, the government must balance the public's expectations with underlying national interests. As an illustration, the government has endeavoured to reconcile economic trade-offs with considerations of national security despite public apprehensions around Chinese investments.¹¹ In addition, Sri Lanka's engagement with regional organisations and multilateral structures is influenced by public sentiment. The significance of security and economic progress in Sri Lanka is frequently attributed to regional collaboration, a perception that influences government policies and engagement in forums such as

⁷ Uyangoda, "Sri Lanka in 2009: From Civil War to Political Uncertainties," 104-111

⁸ De Silva, "Trapped between the Dragon and South Asia's big brother: the case of Sri Lanka's "balanced" foreign policy," 69-81

⁹ Thilini Kahandawaarachchi, "Politics of ports China's investments in Pakistan, Sri Lanka & Bangladesh" (Master Thesis, University of Washington, 2015), 97, https://digital.lib.washington.edu/researchworks/bitstream/handle/1773/33536/Kahandawaarachchi_washington_02500_14820.pdf?sequence=1&isAllowed=y

¹⁰ Hasith Eranda Kandaudahewa, "Sri Lanka between India and China: A Neoclassical Realist Analysis of President Rajapaksa's and President Sirisena's Contrasting Foreign Policies (2005-2019)" (PhD Thesis, University of Auckland, 2020), 201, <https://researchspace.auckland.ac.nz/bitstream/handle/Kandaudahewa-2020-thesis>

¹¹ Nilanthi Samaranayake. "Sri Lanka's foreign policy in a new Rajapaksa era," East Asia Forum, published December 10, 2019, <https://eastasiaforum.org/2019/12/10/sri-lankas-foreign-policy-in-a-new-rajapaksa-era/>

SAARC and BIMSTEC.¹² Nevertheless, complications ensue when societal opinion differs significantly from governmental objectives, specifically with regard to matters encompassing governance and human rights. The manner in which the government reacts to global censure concerning these issues has the potential to affect its diplomatic alliances with other nations and shape public opinion pertaining to its endeavours.¹³ Accordingly, the impact of public opinion and perception on Sri Lanka's foreign policies and diplomatic engagements cannot be underestimated. It is essential for the government to understand and respond to the sentiments of the public in order to safeguard national interests and maintain sovereignty while effectively managing international relations.

The emergence and context of Sri Lanka's foreign policy

As for every state, foreign policy enables a government to interact with other actors in the international system and to advance its own interest on the global stage. Sri Lanka's foreign policy emerged as an institutional framework in the post-independence era. Moreover, in the early years of its statehood Sri Lanka was regarded by many as one of Asia's most promising new nations. It was favoured with a handful of early advantages, namely a vibrant export sector and reasonably high level of education. However, the beginnings of its foreign policy were rather rudimentary; owing to the relative inexperience of the political leadership following independence from British colonial rule.¹⁴ As time progressed however, Sri Lanka soon learnt to form friendships with its neighbours in order to diversify its dependence on aid and trade which was thought to "enhance [its] capability to manage various societal and external challenges", namely volatile economic growth.¹⁵ In fact, prior to the 2021 economic crisis, Sri Lanka had been making reasonable progress in tethering itself to the world economy.¹⁶ In the modern day however, the regulation of Colombo's foreign policy still remains very much under the control of the elite ruling class in both official and unofficial contexts. See figure 1.

¹² Saphala Dhital, "Economic Regionalism: Analyzing the Role of China for Economic Cooperation in South Asia through SAARC" (Master Thesis, Tribhuvan University, 2019), 83, <https://elibrary.tucl.edu.np/bitstream/123456789/11647/1/All%20Thesis.pdf>

¹³ David Lewis, "The failure of a liberal peace: Sri Lanka's counter-insurgency in global perspective," *Conflict, Security & Development* 10, no. 5 (2010): 647-671, <https://doi.org/10.1080/14678802.2010.511509>

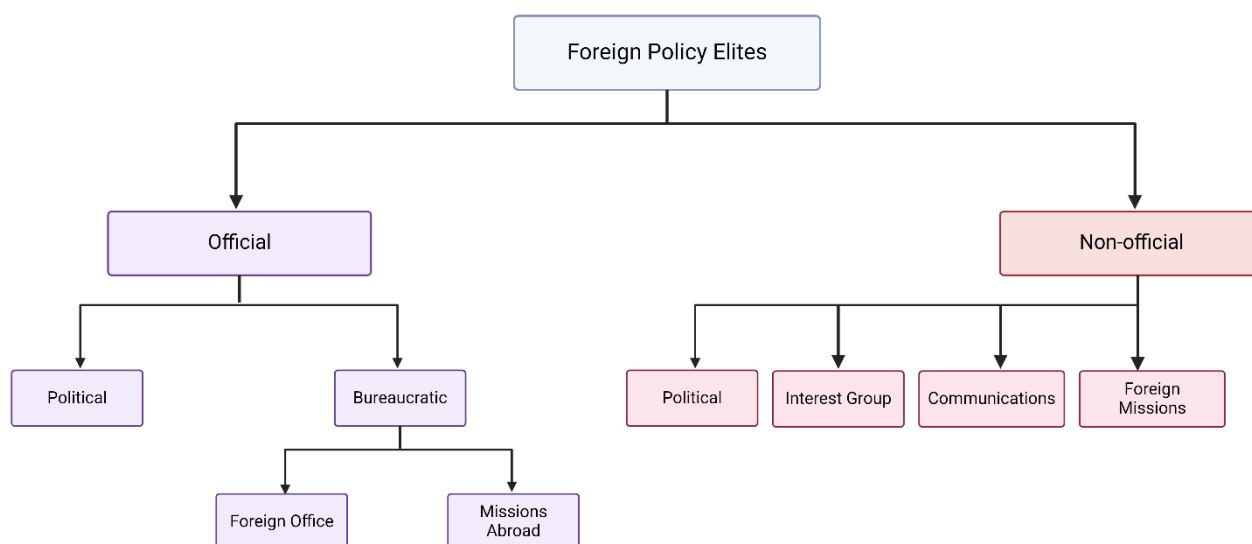
¹⁴ Sivananda Patnaik, "Foreign Policy Making in Sri Lanka: During the Era of Parliamentary Democracy", *The Indian Journal of Political Science* 72, no. 3 (2011), <https://www.jstor.org/stable/41858858>

¹⁵ Patnaik, "Foreign Policy Making in Sri Lanka: During the Era of Parliamentary Democracy", p. 859

¹⁶ *With **notable exceptions** in the late 1960s when Sri Lanka's per capita income (and purchasing power adjusted) slipped below that of its neighbours, later earning the 'low-income' classification from the World Bank.

For three decades since 1977, a central paradigm of Sri Lankan foreign policy has necessitated expansive economic liberalization in response to the failure of previously installed protectionist trade policies, particularly import-substitution practices.¹⁷

Figure 1
Internal actors in the regulation of Sri Lankan foreign policy



Colombo's trade relations and policy in the modern day.

By the mid-1990s, Sri Lanka came to be one of the few developing states that had forged a discernible policy transition from inward orientation to global economic integration.¹⁸ Colombo became the first actor in South Asia to undertake rigorous policy reforms like revising its tariff structure to achieve greater uniformity; opening up the economy to foreign direct investment; unifying the exchange rate; freeing the banking sector to determine interest rates and abolishing state enterprise monopolies over the imports of key commodities.¹⁹ In order to maintain its connection to the world economy, Sri Lanka maintains strong trade relations with its regional neighbours, namely China especially after the inception of Beijing's Belt and Road Initiative to which Colombo is a participating member.²⁰

¹⁷ Prema-chandra Athukorala, "Sri Lanka's Trade Policy : Reverting to Dirigisme?" (Working paper, Australian National University, 2012, p.1, Crawford School of Public Policy (#2012/14)

¹⁸ Athukorala, "Sri Lanka's Trade Policy: Reverting to Dirigisme?" (see **Sachs and Warner 1995, p.1**)

¹⁹ Athukorala, "Sri Lanka's Trade Policy: Reverting to Dirigisme?" p. 3

²⁰ Janaka Wijayasiri and Nuwanthi Senaratne, "China's Belt and Road Initiative (BRI) and Sri Lanka" (Paper, Universidad Nacional Autonoma de Mexico, 2018, Biblio Juridica 12/5550/19).

Sri Lankan exports to China (2022)	Product	Share of export portfolio (%)
	Coconut and other vegetable fibres	10.3
	Knit garments (all)	21.5
	Tea	17.3
	Activated carbon	8.47
	Rubber	1.44
	Live fish	0.44
	Precious stones	2.77
	Titanium ore	0.74
	Granite	0.67
	Refined petroleum	0.43
	Refined copper	0.62
	Gas turbines	0.59
	Excavation machinery	1.14
	X-ray equipment	0.023
	Sports equipment	0.64
	Electrical control boards	1.07
	Coconut oil	0.3

Diplomatic Alliances and Strategic Cooperation

Sri Lanka's foreign policy centres on its diplomatic alliances and strategic cooperation frameworks, which are crucial to advancing national security, interests, and economic growth amidst local and international dynamism. Accordingly, a key partnership exists with India, Sri Lanka's neighbouring country. The Indo-Sri Lanka Accord of 1987 aimed to address ethnic tensions in Sri Lanka and promote regional peace. This agreement highlights the significance of diplomatic interaction and cooperation between the two nations and marks a significant milestone in their diplomatic relations.²¹ Moreover, Sri Lanka's involvement in the "Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)" demonstrates its dedication to regional collaboration for economic progress and security.²² Furthermore, specifically in the economy, Sri Lanka and China formed strategic alliances. China has made significant investments in infrastructure

²¹ Ministry of External Affairs, Government of India. "Indo-Sri Lanka Accord," [mea.gov.in](https://www.mea.gov.in/bilateral-documents.htm?dtl/5541/Agreement+Between+the+Government+of+India+and+the+Government+of+Sri+Lanka+on+the+Establishment+of+Peace+and+Friendship+and+Cooperation), published 1987, <https://www.mea.gov.in/bilateral-documents.htm?dtl/5541/Agreement+Between+the+Government+of+India+and+the+Government+of+Sri+Lanka+on+the+Establishment+of+Peace+and+Friendship+and+Cooperation>

²² Md. Nazrul Islam, Sahanaj Tamanna, Md. Noman, Al Rabby Siemens, S. M. Rashedul Islam, and Md. Shahriar Islam, "Climate Change Diplomacy, Adaptation, and Mitigation Strategies in South Asian Countries: A Critical Review," in *India II: Climate Change Impacts, Mitigation and Adaptation in Developing Countries*, ed. Md. Nazrul Islam, Andre Van Amstel (Cham: Springer Climate, 2022), 33.

development projects in Sri Lanka through the “Belt and Road Initiative (BRI)”. The Hambantota Port and Colombo Port City are two projects that have received substantial funding under this initiative. Sri Lanka has acquired substantial infrastructure development prospects through these alliances; however, there are uncertainties regarding long-term debt affordability and strategic dominance.²³ In addition, diplomatic relations are maintained between Sri Lanka and major international powers, including Japan and the United States. Sri Lanka has received military training and support from the United States, specifically focusing on counterterrorism endeavours. In addition, Japan has made substantial investments in Sri Lanka's infrastructure development, which has resulted in a substantial contribution to the nation's economic progress.²⁴ Over the past few years, Sri Lanka has further enhanced its involvement with regional organisations, including the “Indian Ocean Rim Association (IORA)” and the “South Asian Association for Regional Cooperation (SAARC)”. These bodies facilitate collaboration between Sri Lanka and neighbouring nations on a wide array of complications, including environmental sustainability, marine security, and economic and trade cooperation.²⁵ Overall, the diplomatic alliances and systems for strategic cooperation that Sri Lanka uphold are of the utmost significance in influencing its foreign policy and confronting challenges about prosperity and security. Alliances with neighbouring powers such as China and India offer economic prospects, but active participation in international powers and regional organisations guarantees more extensive diplomatic influence and collaboration. Sri Lanka should sustain an intricate balance between these relationships, however, in order to protect its integrity and national interests.

Sri Lanka's Modern-day Investment Climate

Sri Lanka's contemporary investment climate comprises infrastructure development, Foreign Direct Investment (FDI), government policies and incentives, and the convenience of doing business, among other elements. A comprehensive comprehension of these facets is essential to evaluate Sri Lanka's desirability as a destination for investment. Accordingly, Foreign Direct Investment (FDI) could be explained as an investment tool that has profoundly contributed to the expansion

²³ Lim Darren J and Rohan Mukherjee, “What Money Can’t Buy: The Security Externalities of Chinese Economic Statecraft in Post-War Sri Lanka,” *Asian Security* 15, no. 2 (2017), 73-92, <https://doi.org/10.1080/14799855.2017.1414045>

²⁴ Ashok K. Behuria, “How Sri Lanka Walked into a Debt Trap, and the Way Out,” *Strategic Analysis* 42, no. 2 (2018): 168-178, <https://doi.org/10.1080/09700161.2018.1439327>

²⁵ Aditi Paul, “Regional Cooperation in South Asia: Exploring the Three Pillars of Regionalism and their Relevance,” *The Journal of Indian and Asian Studies* 1, no. 2 (2020): 1-20, <https://doi.org/10.1142/S2717541320500084>

and progress of Sri Lanka's economy.²⁶ In order to entice foreign direct investment (FDI), the nation has undertaken a range of strategies: liberalising investment policies, optimising approval procedures, and providing incentives, including tax exemptions and investment safeguards.²⁷ FDI inflows have demonstrated persistence amidst variations, with notable resilience observed in the manufacturing, telecommunications, and tourism sectors.²⁸

Besides, the influence of government incentives and policies on investment conditions is critical. Sri Lanka has implemented policies to stimulate investment in diverse sectors, such as manufacturing, tourism, and infrastructure development.²⁹ Projects like the "Board of Investment (BOI)" have been formed to encourage investment and assist foreign investors. Moreover, the development of infrastructure is crucial for the attraction and maintenance of investment. Roads, airports, ports, energy facilities, and other infrastructure initiatives have all received substantial financial commitments from Sri Lanka.³⁰ Infrastructure enhancements foster a more favourable business climate and contribute substantially to economic expansion and competitiveness. In addition, investors place significant importance on the convenience of conducting business when assessing prospective markets. Sri Lanka has implemented measures to enhance the business climate, including streamlining regulations, promoting transparency, and reducing bureaucratic obstacles.³¹ Nevertheless, obstacles persist, specifically bureaucratic inefficiencies, regulatory and legal structures, and procedures for purchasing land. Accordingly, the contemporary investment environment in Sri Lanka offers both favourable prospects and formidable obstacles for potential investors. Although the nation provides infrastructure development, policy support, and benefits to entice foreign direct investment (FDI), it is imperative to improve the investment climate further by

²⁶ Kandaudahewa, "Sri Lanka between India and China: A Neoclassical Realist Analysis of President Rajapaksa's and President Sirisena's Contrasting Foreign Policies (2005-2019)".

²⁷ Prema-chandra Athukorala, "The Sovereign Debt Crisis in Sri Lanka: Anatomy and Policy Options" (Master Thesis, Australian National University, 2023), 35, https://acde.crawford.anu.edu.au/sites/default/files/publication/acde_crawford_anu_edu_au/2023-10/acde_tnd_athukorala_2023_12.pdf

²⁸ Matthew McCartney, *The Dragon from the Mountains: The China-Pakistan Economic Corridor (CPEC) from Kashgar to Gwadar* (New York: Cambridge University Press, 2022)

²⁹ Dan Biller and Ijaz Nabi, *Investing in Infrastructure: Harnessing Its Potential for Growth in Sri Lanka* (Washington: World Bank Publications, 2013)

³⁰ R.N. Weerasinghe and S.A.S.S. Perera, "Entry and Survival Strategies Adopted by Chinese Small Scale Entrepreneurs in Sri Lanka: A Case Study," *Annals of Spiru Haret University. Economic Series*, no. 3 (2020): 55-80, <https://oaji.net/articles/2020/5273-1603878173.pdf>

³¹ Ramesh Ramasamy, "Governance and administration in Sri Lanka: trends, tensions, and prospects," *Public Administration and Policy: An Asia-Pacific Journal* 2, no. 23 (2020): 187-198, <https://doi.org/10.1108/PAP-03-2020-0020>

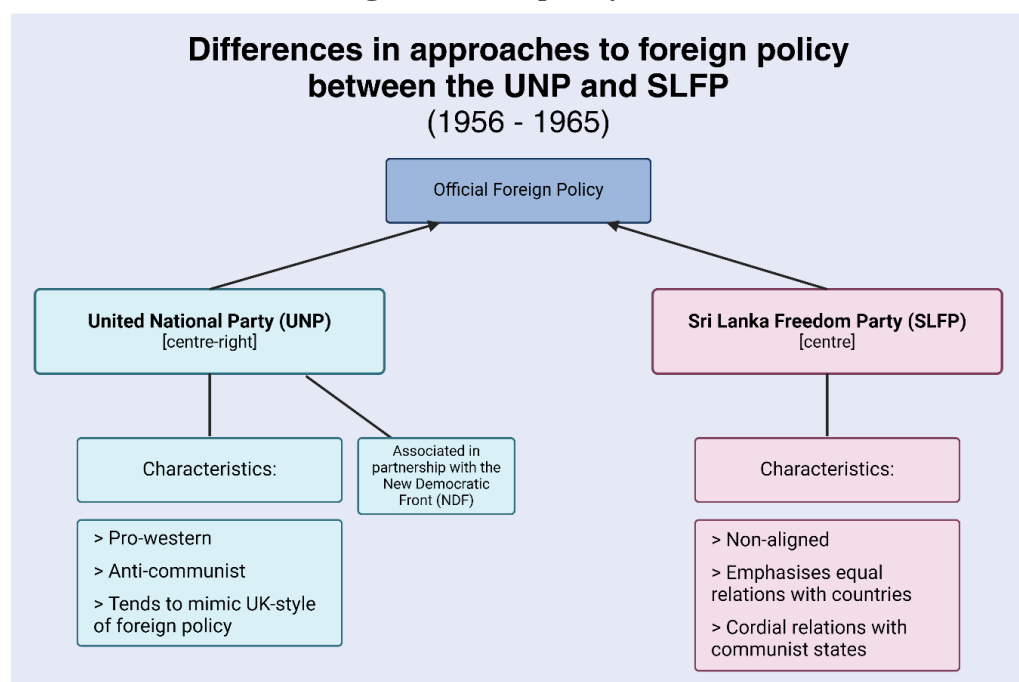
resolving concerns pertaining to legislative changes and the ease of conducting business.

Potential challenges for Sri Lankan foreign policy

A non-aligned foreign policy should not necessarily be interpreted as a normative bias to statecraft, but instead as a strategy through which states regulate their development on the global stage in an increasingly polarised world. At the height of the Cold War, non-alignment was considered a paradigmatic solution for developing states who claimed to be neither in the Eastern nor Western camp.³² In contrast to the bipolarisation that characterised the Cold War, today's world is symptomatic of a starkly multipolar system in which traditionally 'weaker' actors must reassess who they interact with and the ways they do so.

Sri Lanka's internal political landscape is home to parties who hold opinions of foreign policy that are at variance with one-another. The United National Party (UNP) and Sri Lanka Freedom Party (SLFP) are the two biggest parties in Sri Lanka who, in both historical and modern contexts, practice different approaches to foreign policy; see figure 2 below.

Figure 2 (adapted from³³)



³²Houman Sadri, "Nonalignment as a Foreign Policy Strategy: Dead or Alive", *Mediterranean Quarterly* (Spring 1999): p. 113-135, https://is.muni.cz/el/fss/podzim2017/IRE209/um/assigned_readings/01_Sadri_NonAlign_Movement_Article.pdf

³³Shashikala Aloka Madanayaka, "Unique Features of Foreign Policy of UNP Regimes (1948 – 1965) and Bandaranaike Regimes (1956 – 1965)", *Journal not translated* (July 2016): p. 219-227. https://www.researchgate.net/publication/315711629_Unique_Features_of_Foreign_Policy_of_UNP_Regimes_1948_-_1965_and_Bandaranaike_Regimes_1956_-_1965

A historical analysis of the twentieth century proves that inconsistent approaches to foreign policy has damaged Sri Lanka's development ambitions and eligibility to receive foreign aid.

The Sino-Sri Lankan Rice and Rubber Agreement of 1952

After the UNP rose to power in 1952, it began overseeing the country's foreign policy portfolios. The world view of the party's leadership was conditioned by its desire for closer association with the Anglo-Saxon hemisphere and its antipathy toward communism.³⁴ Yet at the same time, Colombo signed a Rice-Rubber Agreement with Beijing which was the first of its kind anywhere in Asia at the time.³⁵ Despite the UNP's anti-communist stance, the agreement emerged as an alternative solution to the obduracy of Western actors, particularly the United States "which had refused to buy rubber or supply rice at what Sri Lanka regarded as reasonable prices".³⁶ China, in juxtaposition, was offering much more favourable terms under the barter agreement. Dissatisfied by the solidification of the agreement, U.S. aid to Sri Lanka was thereupon suspended under the *Battle Act* under which any country selling strategic material such as Rubber to China was disqualified from receiving aid; hence damaging Sri Lanka's developmental ambitions and reputation in the Anglo-Saxon hemisphere.

By this time the UNP had already succumbed, at least partly, to pressure exerted from the Opposition which had heavily criticised its approach to foreign policy; describing it as a 'camp-follower' of the United Kingdom, "operating at the dictates of the dollar republic".³⁷ After signing the agreement, "We decided" declared by the UNP leader J.R. Jayawardene "to enter into [a] trade agreement with China in spite of protests from [the West]...We would even trade with the devil if it suits our purpose and [if] it does not barter away our freedom".³⁸

Socioeconomic Factors

In light of Sri Lanka's socioeconomic context, it is evident that it continues to face persistent obstacles in the Foreign Direct Investment (FDI) domain. Despite efforts to improve the investment climate, Sri Lanka has not yet achieved its full potential in attracting foreign investors. This has been attributed to various factors,

³⁴ Urmila Phadnis and Sivananda Patnaik, "Non-Alignment as a Foreign Policy Strategy: a Case Study of Sri Lanka", *International Studies* 20, no. 1-2 (January 1981), doi: 10.1177/0020881781020000118.

³⁵ *ibid*

³⁶ *ibid*

³⁷ *ibid*

³⁸ Ceylon, House of Representatives, Parliamentary Debates, vol. 21 (1955), col.

including political instability, bureaucratic hurdles, and a lack of infrastructure.³⁹ Moreover, there is a prevalent problem that foreign direct investment (FDI) may overly advantage affluent groups compared to less wealthy groups, thereby maintaining inequality in income and exacerbating social disparities, regardless of its ability to stimulate economic development.⁴⁰

As a consequence, Sri Lanka continues to experience income inequalities, which are apparent in a multitude of socioeconomic metrics. Higher-income groups frequently enjoy advantageous access to employment prospects, medical services, and education, in contrast to the challenges encountered by individuals in less wealthy groups in their pursuit of social mobility.⁴¹ Foreign economic practices, particularly those designed to encourage foreign direct investment, have played a role in the exacerbation of income disparities in Sri Lanka. Although foreign direct investment (FDI) inflows have the potential to create jobs and fuel economic growth, there is plenty of evidence to indicate that the advantages are not disseminated equally among all members of society.⁴² FDI is typically concentrated in industries that predominantly benefit the privileged, including production, hospitality, and technologically advanced sectors.

In addition, social inequalities continue to exist in Sri Lanka, where marginalised communities are frequently excluded from economic growth projects financed by foreign direct investment. The relocation and decline in livelihoods of low-income or rural communities result from purchasing land for large-scale investment endeavours, including developing infrastructure and tourism projects, which significantly impact these populations.⁴³ In order to mitigate income inequalities and disparities in society, a comprehensive strategy is necessary, encompassing governmental actions and foreign economic tactics. Policymakers should prioritise equitable development plans that advance the cause of equal

³⁹ Semini Satarasinghe, “Tackling non-transparency in Sri Lanka to attract sustainable Foreign Direct Investment,” *DailyFT* (Sri Lanka), November 14, 2023. <https://www.ft.lk/columns/Tackling-non-transparency-in-Sri-Lanka-to-attract-sustainable-Foreign-Direct-Investment/4-755181>

⁴⁰ Vipula Dhananjaya Wickramarachchi, “Essays on the Impact of Foreign Direct Investments on Economic Growth, Income Inequality and Structural Transformation: The Case of Middle-Income Countries in the SAARC and ASEAN Regions” (PhD Thesis, University of Wollongong, 2021), 185, <https://ro.uow.edu.au/cgi/viewcontent.cgi?article=2139&context=theses1>

⁴¹ Konara Mudiyanse Palitha Senarath Bandara Konara, “Foreign Direct Investment in Sri Lanka: Determinants and Impact” (PhD Thesis, University of York, 2013), 276, <https://etheses.whiterose.ac.uk/4788/1/FDI%20in%20Sri%20Lanka.pdf>

⁴² Samina Sabir, Unbreen Qayyum and Tariq Majeed, “FDI and environmental degradation: the role of political institutions in South Asian countries,” *Environmental Science and Pollution Research* 27, (2020): 32544–32553, <https://doi.org/10.1007/s11356-020-09464-y>

⁴³ Jayantha Perera, “Displacement-induced Impoverishment: The Role of a Sustainable Income Restoration and Improvement Strategy in Livelihood Rehabilitation in Sri Lanka,” *Social Change* 44, no. 3 (2014): 333-354, <https://doi.org/10.1177/0049085714536803>

accessibility to educational, medical services, and employment prospects across all society groups.⁴⁴ Furthermore, it is imperative to implement stricter oversight and governance measures on foreign direct investment (FDI) inflows to guarantee that such initiatives foster inclusive growth and avoid worsening pre-existing disparities.⁴⁵ In summary, Sri Lanka confronts substantial socioeconomic obstacles, encompassing societal disparities and income inequities sustained by foreign economic policies, specifically regarding foreign direct investment (FDI). Policymakers must foster equitable expansion and ensure the advantages of economic growth are distributed equitably throughout society in order to solve these issues successfully.

Global Economic Dynamics

The multifaceted nature of Sri Lanka's stance on the developing global market and the globe's economic setting is a result of its fiscal practices, involvement with international and regional collaborators, and strategic setting.⁴⁶ Furthermore, Sri Lanka, nestled in the Indian Ocean, is a crucial maritime hub linking South Asia to other regions. Its strategic geographical position has greatly impacted the transportation and trade networks in the area, allowing a streamlined flow of goods and services across Asia, the Middle East, and Africa.⁴⁷ Subsequently, Sri Lanka's GDP is substantially contributed to by various industries, including apparel production, IT services, tourism, and tea exports. In pursuit of economic updates, the nation has endeavoured to foster investment and trade liberalisation, entice Foreign Direct Investment (FDI), and strengthen its international standing⁴⁸. Furthermore, Sri Lanka actively participates in the "Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)" and the "South Asian Association for Regional Cooperation (SAARC)", among other regional economic programmes. Moreover, such infrastructural developments enable Sri Lanka to effectively engage with its neighbouring nations and leverage regional cooperation

⁴⁴ Don Adams, *Education and National Development: Priorities, Policies, and Planning* (Manila: Asian Development Bank, 2002), <https://cerc.edu.hku.hk/wp-content/uploads/2013/11/Education-and-National-Development-Priorities-Policies-and-Planning.pdf>

⁴⁵ Wickramarachchi, "Essays on the Impact of Foreign Direct Investments on Economic Growth, Income Inequality and Structural Transformation: The Case of Middle-Income Countries in the SAARC and ASEAN Regions".

⁴⁶ Prem W. S. Yapa, Sarath L. Ukwatte Jalathge and Pavithra Siriwardhane, "The professionalisation of auditing in less developed countries: the case of Sri Lanka," *Managerial Auditing Journal* 32, no. 5 (2017): 500-523, <https://doi.org/10.1108/MAJ-02-2016-1318>

⁴⁷ Anders Ahlstrom, Petter Pilesjö and Jonas Lindberg, "Improved Accessibility Modeling and Its Relation to Poverty – A Case Study in Southern Sri Lanka," *Habitat International* 35, no. 2 (2011): 316-326, <https://doi.org/10.1016/j.habitatint.2010.11.002>.

⁴⁸ Biswajit Maitra, "Relative role of external debt, FDI, and domestic investment in economic growth: evidence from Sri Lanka," *International Journal of Economic Policy Studies* 15, (2021): 329–347, <https://doi.org/10.1007/s42495-021-00061-6>

to promote economic convergence and growth.⁴⁹ Sri Lanka has established strategic alliances with major international powers, including China, India, the United States, and Japan. These collaborations facilitate Sri Lanka's incorporation into the global financial system, which spans multiple domains such as infrastructure development, investments, international trade, and security collaboration.⁵⁰ However, infrastructural imperfections, governmental obstacles, and unstable politics continue to be obstacles that may impede Sri Lanka's economic development and competitiveness in the marketplace. Sri Lanka must effectively manage such obstacles while leveraging its capabilities to fully realise its potential in the burgeoning global marketplace and financial environment.⁵¹ To summarise, Sri Lanka's increased global economic presence and growing international market can be attributed to its advantageous geographical location, diverse economy, and partnerships with global and regional organisations. Through strategically managing obstacles and capitalising on favourable circumstances, Sri Lanka can augment its standing and positively contribute to worldwide economic progress.

Political Challenges

The political landscape in Sri Lanka is consistently characterised by instability due to the divergent foreign policy strategies pursued by political parties. The subsequent study is based on a literature review to elucidate these challenges.

Sri Lanka experiences political instability mostly as a result of its historically contentious ethnic tensions, notably the Tamil-Sinhala War, a protracted civil war that persisted until 2009. The post-war political landscape is characterised by significant inter and intra-party rivalry and frequent coalition movements, resulting in an unstable political platform.⁵² The existence of large political groups has hindered governance and policy continuity due to heightened polarisation, particularly between the Sri Lanka Freedom Party (SLFP) and the United National

⁴⁹ Orlando Woods, "A Harbour in the Country, a City in the Sea: Infrastructural Conduits, Territorial Inversions and the Slippages of Sovereignty in Sino-Sri Lankan Development Narratives," *Political Geography* 92, (2021): 1-10, <https://doi.org/10.1016/j.polgeo.2021.102521>.

⁵⁰ Nuwan, Mayuri Wijayasundara Gunaratne, Samanthi Senaratne, P D. K. Kanchana, and Thilini Cooray, "Uncovering Corporate Disclosure for a Circular Economy: An Analysis of Sustainability and Integrated Reporting by Sri Lankan Companies," *Sustainable Production and Consumption* 27, (2021): 787-801, <https://doi.org/10.1016/j.spc.2021.02.003>.

⁵¹ Solomon Mutambara, Michael B. Darkoh and Julius R. Atlhopheng, "A Comparative Review of Water Management Sustainability Challenges in Smallholder Irrigation Schemes in Africa and Asia," *Agricultural Water Management* 171, (2016): 63-72, <https://doi.org/10.1016/j.agwat.2016.03.010>.

⁵² Devotta Neil, "Sri Lanka' Political Decay: Analysing the October 2000 and December 2001 Parliamentary Elections," *Commonwealth & Comparative Politics* 41, (2003): 115-42, <http://doi.org/10.1080/14662040412331310121>.

Party (UNP).⁵³ One of the primary sources of political turmoil is the divergence of opinions regarding the appropriate approach to conducting foreign policy. In the past few decades, the SLFP has transitioned from its previous advocacy of a non-aligned foreign policy to a more favourable focus on the beneficial advancement of Sino-Sri Lankan cooperation. The shift in power dynamics can be attributed to the Chinese investments in Sri Lankan infrastructure, particularly the Hambantota Port, which have raised concerns about sovereignty and indebtedness⁵⁴. Conversely, the UNP represents a commitment to secularism, a liberal economy, and a free market ideology. It also prioritises maintaining stability between Western powers, India, and international investors.⁵⁵

The conflicting approaches have led to an unpredictable Sri Lankan foreign policy, adversely affecting the country's economic and political stability. For example, the inconsistent policies with each government modification have negatively impacted investors' trust and strained diplomatic relations. The Rajapaksa administration's pro-China politico-military stance swiftly replaced the Sirisena-Wickremesinghe administration's attempt to balance its relations with India and the West. However, this shift in foreign policies has resulted in an unstable situation.⁵⁶

Moreover, the impacts are further intensified by the presence of internal competition among political parties. The volatile leadership, inconsistent policy changes between the SLFP and UNP, and the emergence of other political parties like the SLPP have intensified political polarisation.⁵⁷ The fragmentation of policy-making disturbs the continuity and consistency of policies, which poses a challenge to the stability of governments, particularly in the realm of foreign policies.

Consequently, it could be deduced that the political instability in Sri Lanka is not directly proportional to the variation in foreign objectives among its political parties. Despite the failure of international relations strategies to foster economic integration, they also contribute to internal political instability, posing a threat to the nation's stability and progress.

⁵³ Kariyawasam Nirukthi Prathiba and Prabhath Jayasinghe, "Determinants of sovereign spreads in Sri Lanka: global factors and country-specific fundamentals," *Asian Journal of Economics and Banking* 6, (2022): 236-254, <https://doi.org/10.1108/AJEB-11-2021-0124>.

⁵⁴ Kelegama Saman, "China-Sri Lanka Economic Relations," *China Report*, (2014). <https://doi.org/10.1177/0009445514523646>.

⁵⁵ Wickramasinghe Nira, "Colonial governmentality and the political thinking through "1931" in the Crown colony of Ceylon/Sri Lanka," *Dossier: Inventer les sciences sociales postoccidentales* 5, (2015): 99 – 114, <https://doi.org/10.4000/socio.1921>.

⁵⁶ Wickramarachchi Vipula, "Determinants of Foreign Direct Investment (FDI) in Developing Countries: The Case of Sri Lanka," *International Journal of Business and Social Science* 9, (2019): 75 – 88, <https://doi.org/10.30845/ijbss.v10n9p10>

⁵⁷ Uyangoda Jayadeva, "Sri Lanka in 2009: From Civil War to Political Uncertainties," *Asian Survey* 50, (2010): 104-111, <https://doi.org/10.1525/as.2010.50.1.104>.

Political Structure

The state's foreign policy is principally determined by the structure of the government and the diversity of political parties in Sri Lanka. The following discussion examines the relationships between these components.

The United National Party (UNP), the Sri Lanka Freedom Party (SLFP), and the Sri Lanka Podujana Peramuna (SLPP) are the political parties of Sri Lanka. SLFP, which was previously non-aligned, has become increasingly aligned with China in recent years due to substantial FDI from China in developing Sri Lanka's infrastructure⁵⁸. Conversely, the United National Party (UNP) has historically advocated for better relations with Western nations and India, albeit as a strategy to maintain equilibrium with the island's northern neighbour. In the same vein as the SLFP, the SLPP, which emerged later, has maintained a close relationship with China while remaining inexperienced in its interactions with other international powers⁵⁹.

However, the Sri Lankan government structure also significantly influences the development of foreign policies. The head of state and government in the executive presidency, who possesses significant powers, has the ability to define the course of international affairs. For example, the foreign policy leadership of the country was significantly impacted by the regime of former president Mahinda Rajapaksa, which was particularly supportive of China during his tenure⁶⁰. However, the parliamentary system also plays a significant role in this; the Prime Minister and the cabinet are influenced by the legislative procedures when determining the foreign policy direction⁶¹.

This structure gives rise to two distinct centres of foreign policy-making and decision-making. This explains the discrepancy between the interventions of the President and the Prime Minister, who are members of distinct political parties with distinct political ideologies. Another illustration was the alliance between President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe, which resulted in fluctuating international policies due to their conflicting foreign policies⁶².

In addition, government employees are working in the Ministry of Foreign Affairs. Furthermore, several other individuals and organisations, both governmental and non-governmental, such as advisory institutes, play a role in developing foreign policies. Shastri highlights that these institutions serve a conservative role by

⁵⁸ Saman, "China–Sri Lanka Economic Relations,"

⁵⁹ Prathiba and Jayasinghe, "Determinants of sovereign spreads in Sri Lanka: global factors and country-specific fundamentals", 236-254.

⁶⁰ Jayadeva, "Sri Lanka in 2009: From Civil War to Political Uncertainties," 104-111.

⁶¹ Neil, "Sri Lanka's Political Decay: Analysing the October 2000 and December 2001 Parliamentary Elections," 115–42.

⁶² Nira, "Colonial governmentality and the political thinking through "1931" in the Crown colony of Ceylon/Sri Lanka," 99 – 114.

ensuring the preservation of a stable and orderly process, especially in the face of ongoing political changes⁶³.

In summary, Sri Lanka's foreign policy development is a complex process that arises from the interactions of multiple political parties and different government structures. The interplay between the arms of government at the national level, the influence of bureaucratic institutions, and the allocation of power between the executive and legislative branches shape the key objectives of the country's foreign policy.

Concluding summary

Looking back, Sri Lanka's foreign policy emerged from rather rudimentary beginnings after achieving independence from British colonial rule in 1948. Despite not inheriting any institutional mechanism through which diplomatic relations could be regulated in the early post-independence era, Sri Lanka now exercises an active but non-aligned foreign policy. Rooted in pragmatism and motivated by Colombo's ambition to reach global economic integration, Sri Lanka's foreign policy is largely pre-occupied with pursuing relationships and interests that are perceived to be beneficial to economic development; such as its extensive trade partnerships with New Delhi and Beijing. In any case, the interplay between different arms of government, the elites and other bureaucratic actors render the formation of foreign policy a complex activity. After the conclusion of the civil war in 2009, the country's modern-day investment climate continues to be heavily saturated by Chinese FDI. Although Colombo's public spending has risen on domestic infrastructure portfolios, the benefits of such investment tend not to be distributed equally amongst the population; effectively making it harder for the poorer majority to achieve upward social and economic mobility. Additionally, Sri Lanka's two biggest political parties do not practice a united stance on foreign matters, although the SLFP's purportedly 'non-aligned' foreign policy appears to have grown more accommodating toward Beijing against the backdrop of unprecedented Chinese FDI in recent years. Despite making considerable progress in advancing Sri Lanka's economic interests in the late twentieth century, this progress risks prolonged stagnation if Colombo's policymakers cannot successfully pull Sri Lanka out of economic oblivion following the 2021 economic collapse. Nevertheless, Sri Lanka's foreign policy continues to evolve according to both domestic and global circumstances.

⁶³ Vipula, "Determinants of Foreign Direct Investment (FDI) in Developing Countries: The Case of Sri Lanka," 75 – 88.

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