

**THE OUTCOME OF CHINA’S ECONOMIC DIPLOMACY:  
ASSESSING THE IMPACT OF AID AND LOANS  
ON SRI LANKA’S DEVELOPMENT SINCE 2005**

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Foreign aid has long been a complex and debatable issue in the context of economic growth for developing countries, especially regarding sustainable development. This study highlights the hidden dimensions and the strong influence of China’s economic diplomacy on Sri Lanka’s development since 2005, focusing on foreign aid, debts, and long-term investment. Since establishing diplomatic relations between China and Sri Lanka in 1957, China has gradually emerged as Sri Lanka’s key creditor and most prominent development assistant, strategically shaping Sri Lanka’s economic landscape. China has advanced its national goals by patiently enhancing Sri Lanka’s domestic development. This research explores whether Chinese foreign aid and loans have promoted sustainable economic growth or fostered massive aid dependency in Sri Lanka. Using a mixed-method approach, especially qualitative, this study draws on policy documents, in-depth interviews with policy experts and academics, as well as government and non-governmental reports, to provide a profound analysis of Sri Lanka – China relations and their financial implements. Key indicators such as the debt-to-GDP ratio, loan disbursements, foreign aid inflows, and major development outcomes are examined to clarify and help understand China’s crucial role in Sri Lanka’s economic progress. The research findings reveal that China’s foreign aid and loans have contributed magnificently to infrastructure and mega-development projects, but they have also created economic dependency, shattering Sri Lanka’s economic sovereignty. This study concludes by recommending strategic policy adjustments and advocating for economic policy reforms in Sri Lanka’s international relations, governance, and economic diplomacy to reduce aid dependency and ensure sustainable growth.

**Keywords:** Foreign aid, economic diplomacy, loan intervention, aid dependency