

“FORECAST ANALYSIS ON INDO- CHINA GEOECONOMICS AND GEOPOLITICAL PLAYOUT THROUGH THE COLOMBO PORT CITY”

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Abstract

Colombo Port City has been the subject of crucial debate on both, international and domestic platforms. Domestic concerns regarding China's financial support and Sri Lanka's sovereignty and the amassing of debt have arisen. On a more global perspective, this has ignited concerns in neighboring nations, predominantly India, on China's presence in the Indian ocean. This paper aims at assessing the nature of Indo-China rivalry and its ability to cripple the success of Colombo Port City as an external deciding factor and the manner in which Sri Lanka should navigate around such circumstances as a developing nation in the Indian Ocean. The author makes use of the values and beliefs of several experts in the fields of diplomacy, academic and maritime security, along with her own to draw conclusions from the data and factual information available. The writer notes that the conclusion and policy recommendations may be subjected to change due to unforeseeable global events that may directly or indirectly impact Colombo Port City developments. The paper concludes that rivalries between economic giants and the pursuit of a Defensive Realist approach by developing nations in ensuring Economic Security are realities found in international relations. As a country that advocates neutral foreign policy and seeks no alignment with particular global giants, Sri Lanka should strengthen its communication with India in addressing their concerns.

Key Words : Geo-economics, Strategic Communication, Economic Growth, Colombo Port City, Service-oriented SEZ.

Introduction

Colombo Port City, Sri Lanka's most invested economic project that is to be open to the world in 2041, has been the focus of much debate as of late. Its purpose is to revolutionize Sri Lanka's mediocly performing economy and to lay down the foundation to a sound accelerated economic growth. In its 73 years of Independence, Sri Lanka has not succeeded in performing exceptionally well and to emerge with a strong economy. While the world is being ravaged by a pandemic, it is imperative that Sri Lanka redefines its economic strategies to make a stronger recovery in a post pandemic world.

Located in Colombo with a land area of 267ha, it is composed of a financial city, a leisure and recreational city and a residential city (CHEC Port City Colombo (Pvt) Ltd, n.d). Upon its completion Sri Lanka will be able, through Economies of Scale, gain comparative advantage in the South Asian region. The Project is classified as a Special Economic Zone and is projected to be a hub of massive investment inflow and knowledge transfer, especially in the form of technology, and create vast job opportunities enabling a trickle-down effect to other sectors of the economy. The project is developed by CHEC Port City Colombo Pvt (Ltd), along with the Government of Sri Lanka. The project was launched in 2014, during President Xi Jinping's visit to the country (Datta, 2021). It is hoped that the project will create the ideal conducive environment to attract Foreign Direct Investment (FDI), will act in the form of a catalyst as a modern services hub and facilitate Sri Lanka's economy to elevate to a high-income status. (Dailymirror, 2021)

With the financial assistance of China, Sri Lanka is under a spotlight of scrutiny with Chinese rivals suggesting an alignment with China. Of these economic giants is India, Sri Lanka's immediate neighbor is vigilantly observing the developments of the Port City. The Research question the paper aims to explore is as follows: "Assess the nature of Indo-China rivalries and its ability to cripple the success of Colombo Port City as an external deciding factor and the manner in which Sri Lanka should navigate around such circumstances as a developing nation in the Indian Ocean". The author will be identifying geo-economic strategies as a more prevalently used tool in modern geopolitics. Subsequently, the author explicates on the geo-political nature of Indo-China relationships and the inescapable effect it will have on the Colombo Port City. The author identifies that power dynamics in the Indian Ocean Region has been subjected to massive change and will have to be considered as an indispensable factor in Sri Lanka's foreign and domestic relations. Finally, the author provides policy recommendations that should be implemented to circumvent this issue. The paper

is sectioned broadly under the following components; Methodology, An analysis on Indo- China relationships and implications to Sri Lanka, Conclusion and Recommendations.

Methodology

The paper uses, as primary data, the input of several experts in the fields of diplomacy, international relations, and maritime security and as secondary data, data sources available online. The author utilizes in depth interview methods to discuss the issue and probable outcomes with the interviewees. The epistemological aspect is achieved by the author’s attempt at integrating knowledge and perspectives of the interviewees to respond to the research problem. The study places an emphasis on actionable knowledge and indicates through the knowledge of interviewees that are based on their experience in respective fields. Since a guarantee to preserve the anonymity was given by the author, a background on each individual will be provided. The first interviewee is a former officer of the Sri Lanka Army and a former diplomat. The second interviewee is a military officer currently serving in the Sri Lanka Navy. The third individual is a senior lecturer specializing in the field of Strategic Studies. The fourth individual is a current government official serving at the Foreign Ministry of Sri Lanka. With the high probability of Colombo Port City emerging as a significant geopolitical centre and a global trade hub, the significance of maritime security cannot be disregarded as there will be imminent threats that could emerge and compromise the National Security of Sri Lanka in the forms of external foreign influence, money laundering, terrorism and extremism etc. Thereby individuals from Sri Lanka Army and Navy were selected since the field of maritime security has been discussed to great length by the respective authorities, with regards to Colombo Port City. An academic specializing in strategic studies was selected to obtain a broader perspective of how Sri Lanka could balance both China and India while using a strategic approach in implementing its foreign affairs and in securing its national interests. A diplomatic official was interviewed to bring into light the methods and techniques Sri Lanka’s diplomatic experts have implemented and should utilize in Sri Lanka’s pursuit of higher economic growth. Freedom to leave the interview was granted by the interviewer. This method attempts to indicate emerging changes and thereby the possible combinatory ways in which scenarios would actualize. Depending on this, the study provides the approaches Sri Lanka should be taking to balance concerns of external powers, while securing its internal development plans. The study also makes use of Defensive Realism, a theory in the field of International Relations.

Discussion

Special Economic Zones

Looking at the concept of Special Economic Zones (SEZ), the literature suggests diverse and contradicting results. With regards to India, proponents suggest that India's SEZs facilitate localized spillovers in terms of development. Countries that are successful in developing a well-structured approach are able to align with an accelerated SEZ led development growth rate than countries that do not. (Aggarwal, 2019). The study suggests a three-way framework; a well-defined strategic framework to align SEZ's with national development strategy, Strategic dynamism and Strategic implementation. By far, the most successful countries with their SEZ projects are China, Korea and Taiwan. In contrast, Countries such as Cambodia, Indonesia and Sri Lanka deal with limited success of the SEZ localities in strengthening their productive capacity.

Looking at Shenzhen's development growth, we can point out that the SEZs did succeed in attracting FDI, expanding the trade sector of China and allowing for rapid transfer of tech knowledge into the labour force. Strategically, SEZs were placed away from the close proximity of Beijing, aiming to deter any political influence. (Yue, Lee, and Gordon Kee, 2014)

A massive contributing factor to China's economic growth was the presence of SEZs. Simultaneous innovative economic policies and practices gave way to an enormous economic transformation in a Post-Cultural Revolution China. China was able to link into the Global supply chains, resulting in a development boost within regions of China. Shenzhen played a predominant role in shaping the country's economy and revolutionizing global trade. (Yue, Lee, and Gordon Kee, 2014).

Colombo Port City will, upon its competition, be compared with other global SEZs such as Dubai International Financial Centre, Labuan International Business and Financial Centre and Gujarat International Financial Centre (Lakshman Kadirgamar Institute for International Relations and Strategic Studies, 2020). The study emphasizes on the importance of benchmarking in order to deem Port city a success. The debate that revolves around Colombo Port City and China's involvement is also rooted around the possibility that such projects could be used by China for commercial and military purposes. Additionally, the lease on Chinese funded Hambantota port for ninety-nine years to China has exacerbated concern regarding Sri Lanka's autonomy and the probable loss of control of its own national security matters (Wignaraja et al. 2020). As the port city will have emerged as a service oriented SEZ and fintech hub, the

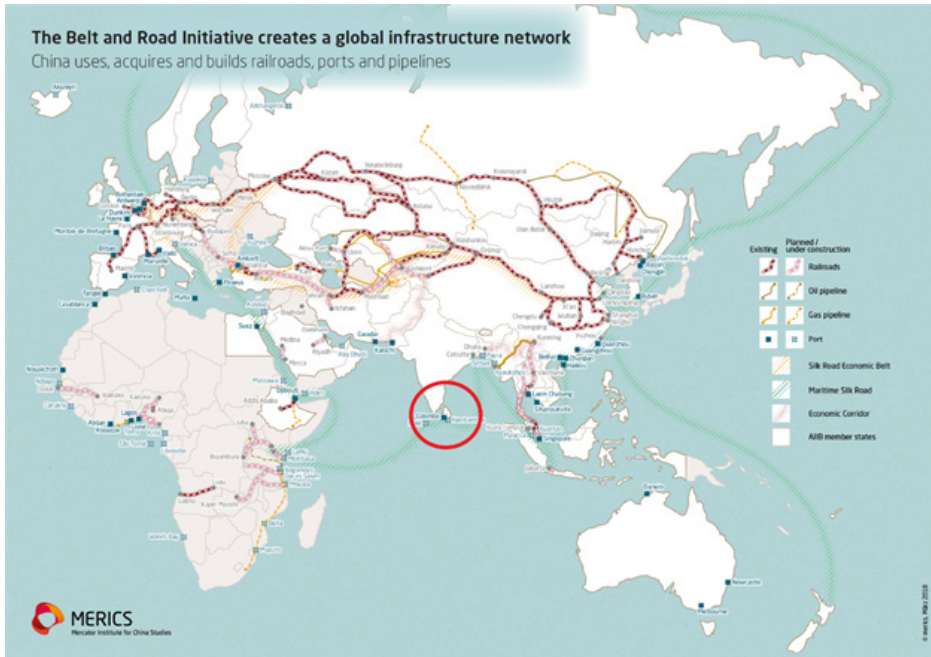
success of it will depend on several external and internal factors such as Global Economic Development, Global political climate and technology advancement, Domestic Stability in terms of political and economy status, rate of infrastructure development outside of the SEZ and labor market resources. Sri Lanka does not showcase its best performance in terms of the Ease of Doing Business Index and therefore must facilitate better administrative processes for entrepreneurs and potential investors (Aggarwal, 2005).

Geo-economics and Geopolitics

Geo-economics is considered a subdivision of Geopolitics and a prominent tool in the Geostrategic toolbox. There is a distinct interwoven nature between the two concepts. Geoeconomics is often discussed in two forms; one focuses on the positive aspects of Geoeconomics, while the other focuses on the negative. Geopolitical strategies are often in the form of overt approaches. The means used are often military centered and are compose a high threat perception. The projection of these strategies is not subtle and is evident.

Over time, we see a gradual reformation and reshaping of the geopolitical space. Geopolitics has transformed into a field where countries incorporate economic approaches in the pursuit of their interests. Views highlight that a powerful economy is associated with higher degree of influence in the global arena particularly in matters of negotiation, putting developing nations at a disadvantage. It was interesting to note that economics is emerging as a subtle yet coercive tool used in the rivalry between countries. In other words, geopolitics and subsequent geostrategies are increasingly being manifested through economic tools and policies.

FIGURE 2 : The map of the Belt and Road Initiative and Sri Lanka



Source : Mercator Institute for China Studies (MERICIS)

Belt and Road Initiative (BRI) and China

China's economic growth is stemmed in an accelerated growth pace since the Cultural Revolution in the 1960s and the subsequent liberalization of the economy in 1978 under the leadership of Deng Xiaoping. It can be universally acknowledged that China's economy is expanding at an unprecedented rate, as the world's second largest economy. It has made significant use of geo-economic approach in attracting countries with its Belt and Road initiative.

The Belt and Road Initiative (BRI), also known as the New Silk Road, can be termed as China's most ambitious development driven project. Dispatched in 2013 by President Xi Jinping, this infrastructural and maritime approach stretched out from East Asia to Europe, all the while developing China's economic and political hold in the global platform. (Chatzky and McBride, 2020).

It comprises of the Maritime Silk Road and the overland Silk Road Economic

Belt. Initially, referred to first as the One Belt, One Road initiative the project became commonly known as the Belt and Road Initiative. At the summit of the Association of Southeast Asian Nations (ASEAN) in Indonesia, 2013, President Xi announced plans for the 21st Century Maritime Silk Road (Council on Foreign Relations, 2020). To accommodate expanding maritime trade traffic, China would be investing in port improvement along the Indian Ocean, extending from Southeast Asia all the way to East Africa and certain parts of Europe. China hopes to evolve as a global economic giant and emerge more dominating in terms of economy and trade.

A few experts consider China's rising force to be an expansion of concern, and as the expenses of a large number of the projects have soared, debate has arisen in certain nations. Additionally, the United States shares the worry of some Asian nations that the BRI could be a Trojan horse for Chinese driven regional and military development. Despite the disagreement, USA has failed to present a more engaging economic plan. This essentially points out as to why many developing countries such as Sri Lanka opt for financial support provided by the Chinese. It is devoid of the Western reluctance to commit and presents offers that are more appealing.

All interviewees acknowledged, however, that China has not yet exhibited its profound military strength. This does not imply that China wishes to remain compliant to the Western pressures aimed at the containment of Chinese global presence. China has simply not been subjected to a dire scenario where it had to rely on its military power. However, a study by Ji (2016) indicates the People's Liberation Army (PLA) of China have included the Indian Ocean as a region of interest. According to a report published by Karen Ward of HSBC Global Research, it is assumed that China would be the leading economy by 2050 (Platt, 2012). They utilize a pragmatic approach in development with 5-year development plans stretching over a number of decades. China's population of 1.4 billion was announced to be above the poverty line in 2020. Additionally, it stands out as one of the few economies which grew rather than contracted during the pandemic.

The cumulative amount of Chinese investment has been around \$12.1 billion between 2006 and July 2019 (Wignaraja et al. 2020). Sri Lanka through BRI, will have more access to main infrastructure, skills and capital that could easily facilitate a more connected platform for trade. This can, in turn, help develop investment promotion, participation of global value chains and increase job opportunities and consequently labor force participation, the transfer of knowledge and technology and also assist further development of the Colombo Port

City (Wijayasiri and Senaratne, 2018). Sri Lanka's challenge is to assure it reaps the benefits from these investments without compromising on its autonomy, sovereignty and thereby national security.

India's mounting Concerns

With China's more lingering presence in its neighboring territories, India has raised concerns on its domestic security. Recent media articles conveyed that the Indian military was keeping close watch over Sri Lanka's Port City (Ramanayake, 2021). All interviewees acknowledged that some of India's concerns regarding Chinese presence might be justifiable, while some may not. China's national defense strategy, introduced in 2004 and updated in 2015, placed importance on "frontier defense, which enriched the original strategy and has immediate relevance to PLAN expansion." China's maritime strategies branch out from its immediate surrounding waters to the far reaching oceans such as the Indian Ocean. PLA's two ocean strategy aims at placing emphasis on the Indian Ocean and is rooted in China's need to secure trade routes and commercial routes via the Indian Ocean and as a countermeasure against US's interest to balancing power in Asia. (Ji, 2016)

On one hand, China's two ocean strategy acknowledges that in moving towards the west, particularly for maritime power projection, India would have more sensitivities in the Western region of the Indian Ocean. However, it dismisses the notion that India is the sole owner of the Indian Ocean and their ability to dictate terms on the developments in the Indian Ocean. (Ji, 2016). On the other hand, there are India's concerns on China's apparent plan to contain India through BRI investment projects. According to analysts, China is utilizing a "String of Pearls" Strategy by investing in ports and infrastructural projects in Gwadar, Chittagong, Hambantota, and Sittwe (Chatzky and McBride, 2021). Additionally, India's concerns are rooted in the possibility that China would take advantage of these ports establishing a more significant presence in the Indian Ocean. Moreover, given India's often antagonistic relations with Pakistan and the strengthening of the Sino-Pakistan nexus further amplifies India's fears that China may seize control over the Indian Ocean region. This triangular dynamic between the three nations can certainly have sensitive implications on Sino-Indian relationships. (Kumar, 2010)

With growing interest from other global players in the Indian Ocean region, Sri Lanka is naturally of strategic importance. Countries that are aligned with the United States of America such as Japan, Singapore, Australia have shown

interest in the developments of the Indian Ocean. This is clearly interpreted as a multidimensional interest by various players in the global platform.

Interplay of India and China rivalry and Implications on Sri Lanka

China and India share a history of disagreeable relationships. Both countries display strategies belonging to Offensive Realism where it is believed that status quo powers are rarely found in world politics. In light of the fact that the international framework provides strong incentives for states to look for opportunities to gain power to the detriment of rivals, and to take benefit of those circumstances when the advantages offset the expenses. A state's ultimate goal is to be the hegemon in the system. (Mearsheimer, 2001)

As two Asian economies that have made an astounding turn back from their underperforming statuses in the late 1900s, these countries have certainly focused on their comparative advantages in establishing themselves as global economic powers by placing additional emphasis on trade markets and IT sectors. On the other hand, it is inevitable China will emerge as the leading economy in terms of GDP Per Capita by 2050, with India and US following closely. Emerging Economies (E7) will be progressing twice as fast compared to the (G7) economies. (PwC, 2017) Countries such as Vietnam and Philippines will be making quite impressive progress in terms of GDP growth rates. Therefore, the prospects from Asian economies to advance is quite high.

It is also interesting to note that intensifying the unease of India, is USA's heightening determination to contain China's presence. Therefore, China's exponential growth has caused the other international players to be cautious in their conduct and form alliances such as the Quad. China's presence is manifested through its economic strategies. Their military influence is not as profound as their economic presence. This does not nullify the possibility of China's military gaining strength because of a strong economy. The formation of an institution uniting all these countries could be formed with its primary objective being the close supervision of China's developments. This has come into existence through the AUKUS and Quad. Biden's deterring advice to US companies against investing in Hong Kong is also an attempt at discouraging transactions centred in the financial hub (Sevastopulo and Riordan, 2021). Recent developments such as the Digital Trade Deal (Martin, Martin, and Mohsin, 2021) is evidence that the US is taking into consideration the need to contain China's influence.

This signifies that Colombo Port City developments cannot be isolated or unaffected by the larger picture of geopolitics with more significant powers at play.

Therefore, we cannot state that geopolitics of India and China will not have an impact on Sri Lanka and its economy. In contrast, it can be stated that the geo-economic relationships existing between China and India, through geopolitical and geostrategic actions, are an external determinant of the success of Colombo Port City. Even though such development of relationships between India and China is not within Sri Lanka's control, Sri Lanka must handle its relationships with both nations with expertise if its ultimate aim is to ensure the economic benefits through Colombo Port City. This notion was reiterated by the interviewees. When questioned about how the Indo-China rivalry would play out in the Sri Lankan context, a common concept shared by all interviewees was that Sri Lanka would have to be extremely strategic in their conduct between the two countries. They stated that China for the moment is only interested in securing its trade routes between Central Asia and Africa from where they receive their raw materials for production. China would intervene therefore under the circumstances that their trade routes are compromised. On the other hand, India's concern on China's presence in Sri Lanka is rooted in the volatile relationships between one another. India being the super power in the South Asian Region is aggravated to have a foreign superpower dwelling in the territory where she remains dominant.

As a country who is heavily dependent on investment inflows from China and India, Sri Lanka has to ensure that concerns of these countries are addressed. It is only by doing so that Sri Lanka can strengthen the potential success of the Port City. When asked about the manner in which India's concerns would be projected and manifested in Sri Lanka, the interviewees shared the same opinion once again. India's concern is justified as any sovereign state would be vigilant about its national security which may be threatened, from their point of view, by the presence of another external global power. According to the theory of Defensive Realism, states should for the most part seek after moderate avenues as the best course to security. Under most conditions, the more grounded states in the worldwide framework should seek after military and economic arrangements that convey restraint (Taliaferro, 2000). Sri Lanka's ideal response should be one that is aligned with Defensive realism where it is encouraged to maintain moderate policies so that International Security can be maintained. As opposed to Offensive Realism, this suggests that there is a need to maintain the global balance of power.

It is understood that geo-economic and geopolitical events in the neighboring regions of Sri Lanka can sustain severe damages to the potential benefit that could be achieved by Colombo Port City. Therefore, the implication is that success of the financial hub is not solely dependent on internal factors but that,

external factors equally cause an effect, more or less devastating. Sri Lanka as an island of 22 million is not in a position to antagonize its neighbors who are part of more powerful entities. It can be stated that the country must strictly adhere to its Neutral Foreign Policy in order to reassure its neighboring countries. An external balancing of China and India should be executed so that antagonism does not emerge from either nation.

Conclusion

The power dynamics in the Indian Ocean Region has been subject to massive change over the past decade, unlike in the late 1900s and early 2000s. In the midst of US and China trade wars, and China's presence in the Indian Ocean, India has raised concerns on national security. The author has recognized Indo-China relationships as an issue that could hamper the success of Colombo Port City. The nature of this issue is studied in depth by emphasizing the fact that geo-economic strategies are increasingly being used in the newer dimensions of geopolitics. Subsequently, the author analyses the China's BRI, its higher focus on the Indian Ocean and India's concerns on an external global giant's presence in the Indian Ocean. Throughout the analysis, the author further substantiates the arguments with the knowledge and expertise of interviewees that are key to arriving to a conclusion. While Chinese assistance in Sri Lanka is solely economic based, we need to be mindful and address India's concerns as a means of strengthening ties with India. If they develop or deteriorate in nature, it will accordingly have implications on Colombo Port City. It can be stated that regional geopolitical and geo-economic developments between China and India can affect the success of Colombo Port City and is an external factor that will determine the success of Colombo Port City, ultimately affecting the economy of the country. Geopolitical competition/ rivalry between the two nations and India's concerns on sovereignty and autonomy can dent investment inflows and business confidence and therefore can have implications on the potential benefits and returns of Colombo Port City.

Sri Lanka's respective authorities should comprehend that the power dynamics between global giants in the Indian Ocean will be, in the not-so-distant future, an inexorable factor Sri Lanka must take into consideration when it comes to its foreign and domestic conduct. In a context where such uncompromising foreign relationships between global rivals exist, Sri Lanka must assimilate methods to circumvent setbacks that could directly or indirectly affect the potential benefits of Colombo Port City. Sri Lanka must utilize this opportunity to create a conducive environment for healthy competition between global giants using an approach of Defensive Realism.

As a country which advocates neutral foreign policy and seeks no alignment with particular global giants, Sri Lanka should strengthen its communication with India in addressing their concerns. The Port City has the potential to emerge as a center that nurtures healthy competition between international investors. In a context where economics is increasingly transforming into a subtle tool of warfare in the power rivalries of major international blocs, Indo- China rivalries are classified as an external factor that Sri Lanka should be mindful about, as it may directly or indirectly have an implication on the Economic Security of Sri Lanka.

Policy Recommendations

a. Focusing on building ties with India

The Sri Lankan government should realize that despite Chinese financial assistance, maintaining relationships with India is important. Sri Lanka has, since times of ancient history, secured friendly ties with India. The introduction of Buddhism to the country by the Indian emperor, King Asoka is still considered India's greatest cultural gift to Sri Lanka. As the immediate neighbor, Sri Lanka must be vigilant of the concerns of India and address them rightly. It is absolutely important that transparent communication is maintained between Sri Lanka and India. Sri Lanka should be frank and convincing that the Port City is established as a means for securing and accelerating Sri Lankan economic growth. In order for this to be communicated, it is advisable that the Sri Lankan experts of foreign relations maintain good communication with those of India's foreign relations. This can be between individuals of Ministries, research think tanks, policy makers and university intelligentsia.

b. Strengthening trade ties with economic giants including India

As a country dependent on its international trade, Sri Lanka can make use of this opportunity to strengthen trade ties with India through bilateral trade agreements and regional trade integration. Sri Lanka, severely dependent on its importation of intermediate and raw materials, can benefit from free trade agreements, supporting the economy which is currently suffering from current and Balance of Payment deficits. Sri Lanka can also with India's collaboration build up its high skilled labour forces especially in the IT, Cyber security and Data Science sectors. Another ideal example on building trade ties is the recent trade deal with the USA on the Liquefied Natural Gas supply with New Fortress Energy Inc. (Economynext, 2021)

c. Consistent Development Policy

A collective attempt in upholding the development progress of Sri Lanka that does not change subject government that comes into power should be implemented. As a country that has several characteristics that can be utilized to its advantage, the development policies should be in synchronization to its economic growth. Therefore, consistent policies should be implemented with the collaboration of ruling parties and the opposition.

d. Encourage healthy competition in Port City

In order to accommodate and advocate neutral foreign policy, it is imperative Sri Lanka encourages investors to invest in Colombo port city as an attempt to neutralize China’s growing presence in the Indian Ocean. Port City will establish itself as a very significant political and economic centre in the Indian Ocean region. Given that Sri Lanka creates a business environment instrumental in attracting investment and improving indicators such as Business Confidence Index (BCI), Sri Lanka can avoid issues such as Adverse Selection where the market would attract wrong investors. In this case, Sri Lanka can circumvent the possibility of becoming a potential centre of corruption and money laundering.

e. Need for an integrated multidisciplinary approach to attract investors.

Complimentary elements that attract investors such the efficiency of the public sector, sophisticated technological infrastructure, efficient legal proceedings should be achieved. The Government should invest in skills such as Digital literacy, luxury scale hospitality and advanced financial services. As investors are increasingly interested in green consciousness, it is also important that the Central Environmental Authority maintains and secures the natural habitats surrounding the Colombo Port City.

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