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International relations and security policies in the context of Chinese investments: case studies of Cyprus and Sri Lanka

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SCHOOL OF SOCIAL SCIENCES, ARTS AND HUMANITIES

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Dimitrii Ivanov-Chakubash
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Thesis Dedication

I dedicate this work to the Lord God, whose blessings have been my unwavering source of strength and inspiration. I also dedicate this dissertation to all my professors who have taught me in Cyprus, China, and Russia. Their wisdom, passion, and dedication have instilled in me a profound love for international relations and sparked my deep interest in studying both China and the Eastern Mediterranean region.

Abstract

This thesis examines how Chinese investments under the Belt and Road Initiative (BRI) influence the security and foreign policy orientations of two strategically located island nations: Cyprus in the Eastern Mediterranean and Sri Lanka in the Indian Ocean. Although both countries seek external funding to spur economic growth, the influx of Chinese capital raises complex questions regarding sovereignty, debt dependencies, and long-term security implications. The research addresses a notable gap in the existing literature by focusing on the dual nature of these investments—highlighting immediate economic benefits while probing deeper strategic risks.

A mixed-methods approach is employed, combining qualitative analyses of policy documents, official statements, and media reports with comparative case studies of specific infrastructure projects in Cyprus and Sri Lanka. This design illuminates how each host country adapts its security frameworks and foreign policy to accommodate Chinese involvement. The dissertation also draws on international relations theories—such as economic statecraft, bandwagoning, and debt-trap diplomacy—to offer a nuanced interpretation of how smaller states navigate competing pressures from major powers.

Findings reveal that while Cyprus and Sri Lanka gain in sectors like infrastructure, ports, real estate, and energy, they concurrently face intensified concerns over sovereignty, economic dependency, and the "dual-use" potential of strategic assets. The study concludes with policy recommendations aimed at balancing the economic allure of foreign capital with rigorous screening procedures and broader security imperatives.

Keywords: Belt and Road Initiative (BRI), Chinese investments, national security, foreign policy, Cyprus, Sri Lanka, debt-trap diplomacy, bandwagoning, economic statecraft, infrastructure, Maritime Silk Road, sovereignty, international relations

Abstract in Greek

Η παρούσα διατριβή εξετάζει πώς οι κινεζικές επενδύσεις στο πλαίσιο της Πρωτοβουλίας Ζώνης και Δρόμου (Belt and Road Initiative) επηρεάζουν τη στρατηγική ασφάλειας και τον προσανατολισμό εξωτερικής πολιτικής δύο στρατηγικά τοποθετημένων νησιωτικών χωρών: της Κύπρου στην Ανατολική Μεσόγειο και της Σρι Λάνκα στον Ινδικό Ωκεανό. Παρότι αμφότερες αναζητούν εξωτερική χρηματοδότηση για την τόνωση της οικονομικής τους ανάπτυξης, η εισροή κινεζικού κεφαλαίου θέτει σύνθετα ζητήματα σχετικά με την κυριαρχία, την εξάρτηση από το χρέος και τις μακροπρόθεσμες επιπτώσεις στην ασφάλεια. Η έρευνα καλύπτει ένα αξιοσημείωτο κενό στη βιβλιογραφία, εστιάζοντας στη διττή φύση αυτών των επενδύσεων—υπογραμμίζοντας τα άμεσα οικονομικά οφέλη, ενώ παράλληλα διερευνά εις βάθος πιθανές στρατηγικές συνέπειες.

Για την ανάλυση εφαρμόζεται μια πολυμεθοδική προσέγγιση, η οποία συνδυάζει ποιοτικές μελέτες πολιτικών εγγράφων, επίσημων δηλώσεων και δημοσιογραφικών πηγών με συγκριτικές μελέτες περίπτωσης συγκεκριμένων έργων υποδομής σε Κύπρο και Σρι Λάνκα. Μέσω αυτής της μεθόδου αναδεικνύεται ο τρόπος με τον οποίο καθεμία από τις δύο χώρες προσαρμόζει τα πλαίσια ασφαλείας και την εξωτερική της πολιτική, ώστε να ενσωματώσει την κινεζική εμπλοκή. Επιπλέον, η διατριβή αξιοποιεί θεωρίες των διεθνών σχέσεων—όπως η «οικονομική κρατική πολιτική» η «bandwagoning» και η «διπλωματία της παγίδας χρέους» —προκειμένου να προσφέρει μια εκλεπτυσμένη ερμηνεία του τρόπου με τον οποίο μικρότερα κράτη αντιμετωπίζουν τις ανταγωνιστικές πιέσεις των μεγάλων δυνάμεων.

Τα ευρήματα καταδεικνύουν ότι, ενώ η Κύπρος και η Σρι Λάνκα ωφελούνται σε τομείς όπως οι υποδομές, τα λιμάνια, τα ακίνητα και η ενέργεια, ταυτόχρονα εγείρονται σοβαρές ανησυχίες για την κυριαρχία, την οικονομική εξάρτηση και τον «διττό» χαρακτήρα κρίσιμων εγκαταστάσεων ως προς πιθανή στρατιωτική χρήση. Η μελέτη καταλήγει σε συστάσεις πολιτικής, εστιάζοντας στην ανάγκη εξισορρόπησης της οικονομικής έλξης του ξένου κεφαλαίου με αυστηρές διαδικασίες ελέγχου και ευρύτερες επιταγές ασφάλειας.

Keywords: Πρωτοβουλία Ζώνης και Δρόμου (BRI), κινεζικές επενδύσεις, εθνική ασφάλεια, εξωτερική πολιτική, Κύπρος, Σρι Λάνκα, διπλωματία της παγίδας χρέους, οικονομική κρατική πολιτική, υποδομές, Θαλάσσιος Δρόμος του Μεταξιού (Maritime Silk Road), κυριαρχία, διεθνείς σχέσεις.

Introduction

International relations, influenced by global economic dynamics, are often shaped by forces that, despite their seemingly economic nature, are subtly intertwined with political sovereignty and security—such as in the case of Chinese investments in the context of Cyprus and Sri Lanka. The Belt and Road Initiative (BRI), often abbreviated as BRI, demonstrates China's dual motives: it projects economic influence while simultaneously strengthening geopolitical power. The crux of the issue lies in the delicate balance between attracting foreign capital for development and preserving national sovereignty—a paradox that becomes evident in the chosen examples. Cyprus, with its strategic location in the Eastern Mediterranean, and Sri Lanka, situated at a crucial maritime crossroads in the Indian Ocean, are not merely recipients of investments, but rather chess pieces in a broader geopolitical strategy, where financial flows often carry political significance.

The relevance of this research is emphasized by contemporary international discourse: as China continues to expand its global presence, countries must reconcile short-term economic benefits with long-term strategic autonomy—a tension that is particularly acute in regions that are both economically dependent and geopolitically significant. In both Cyprus and Sri Lanka, this dynamic is heightened by the regional context: Cyprus, as part of the European Union, must navigate the challenges of maintaining harmonious relations with both China and the EU; Sri Lanka, on the other hand, must balance between Chinese influence and the presence of India, its historically dominant neighbor. These contradictions prompt reflection: to what extent do the inflows of Chinese investments reshape the foreign policy and security strategies of small, strategically located nations?
The primary purpose of this dissertation is to critically analyze the strategic and security implications of Chinese investments in Cyprus and Sri Lanka. This analysis aims to explore how these investments influence the national security policies and international relations of both island nations. Given their strategic locations, Cyprus in the Eastern Mediterranean and Sri Lanka in the Indian Ocean, both countries are pivotal in understanding the broader geopolitical impacts of China's Belt and Road Initiative (BRI).

1.1 Aim of dissertation

This dissertation seeks to address the gap in existing literature by examining the dual nature of Chinese investments—highlighting the potential economic benefits and the associated security risks. The research aims to uncover the strategic motivations behind China's investment policies in these regions and their repercussions on the security frameworks of the recipient countries. In Cyprus, Chinese investments have been prominent in sectors such as real estate and energy.

These investments have spurred economic growth but have also raised concerns about economic sovereignty and security implications, particularly in the context of Cyprus's relationship with the European Union and its strategic location in the Mediterranean. In Sri Lanka, Chinese investments have focused on large infrastructure projects, including ports and highways. While these projects have significantly contributed to economic development, they have also led to substantial debt accumulation and concerns over economic dependency on China.

The dissertation aims to assess the extent and nature of Chinese investments in Cyprus and Sri Lanka, analyze the strategic motivations behind these investments, evaluate their impact on national security policies, and examine the influence of these investments on the foreign policy decisions of both countries. By exploring the potential risks, including economic dependencies and debt vulnerabilities, this study will provide policy recommendations to balance the economic benefits of Chinese investments with national security imperatives.

1.2 Innovation of Dissertation

This study aims to significantly contribute to the discourse on international relations and security by elucidating the nuanced impacts of Chinese investments on the strategic and security environments of Cyprus and Sri Lanka. The findings will have both academic and practical implications, providing valuable insights for policymakers, scholars, and international organizations.

The research will enhance the existing body of knowledge on economic statecraft and the geopolitics of the Belt and Road Initiative (BRI). By offering detailed case studies of Cyprus and Sri Lanka, the dissertation will provide empirical evidence on how Chinese investments influence national security policies and international relations. This will help in refining theories related to economic statecraft, small state security strategies, and geopolitical balancing.

Furthermore, the study will address the concept of "debt-trap diplomacy," which has been widely debated in academic and policy circles. By examining the debt levels and economic dependencies of Cyprus and Sri Lanka, the research will offer a balanced perspective on whether Chinese investments lead to strategic vulnerabilities or economic opportunities. This analysis will challenge or support existing narratives, contributing to a more nuanced understanding of China's global economic influence.

The concept of "bandwagoning" will be crucial in this context. Smaller states, like Laos and Cambodia often bandwagon with more powerful states to gain economic and security benefits. This study will analyze whether Cyprus and Sri Lanka are engaging in bandwagoning behavior with China and the implications of such a strategy for their long-term security and sovereignty.

The findings will have broader implications for the international community, particularly in understanding the strategic intentions behind China's BRI and its impact on global power dynamics. The dissertation will offer insights into how China uses economic investments to achieve geopolitical objectives and how recipient countries can balance these influences.

For international organizations and alliances such as the European Union the research will provide a basis for developing policies to support member states in managing the strategic impacts of Chinese investments. It will also inform debates on global economic governance and the role of emerging powers in shaping the international order.

1.3 Research Questions and Hypotheses

Within the scope of this research, the primary question arises: how do Cyprus and Sri Lanka manage the dual challenge of benefiting from Chinese investments while simultaneously mitigating risks to their sovereignty and security? This study requires a nuanced approach—one that goes beyond simplified cause-and-effect relationships and instead delves into the intricate webs of influence shaping contemporary international relations. The concepts of "investment," "sovereignty," and "security," often employed in these discussions, must be re-evaluated through a lens where economic, political, and security consequences are not merely parallel issues but interwoven.
This dissertation will address the following research questions:

1. What are the key drivers of Chinese investments in Cyprus and Sri Lanka?
2. How do Chinese investments affect the national security policies of these countries?
3. What strategic objectives does China pursue through its investments in Cyprus and Sri Lanka?
4. What are the potential security risks and benefits associated with Chinese investments in these island nations?
5. How do international relations theories explain the impact of Chinese investments on Cyprus and Sri Lanka?
6. What policy measures can Cyprus and Sri Lanka adopt to balance the economic advantages of Chinese investments with national security concerns?

The subject of the study—Chinese investments in Cyprus and Sri Lanka—is inextricably linked to the international strategies implemented by China, particularly within the framework of the Belt and Road Initiative (BRI), where geopolitical ambitions are subtly intertwined with economic goals. This creates a network of influence that demands critical examination. Therefore, the focus of the research is on the specific security strategies and foreign policy adaptations of these countries, as they navigate the delicate balance between economic dependence and political sovereignty—a balance that becomes precarious due to the scale and strategic direction of Chinese investments.

The aim of this study is to explore and analyze the mechanisms through which Chinese investments shape the security policies and diplomatic trajectories of Cyprus and Sri Lanka—both countries which, despite geographical distance, face a common challenge of integrating Chinese capital while preserving national interests. This will uncover the hidden dynamics of power that emerge when weighing economic benefits against long-term security risks.

The objectives of this research are: first, to analyze the strategic motives behind Chinese investments in these regions and trace the economic and political goals underlying China's foreign policy actions; second, to assess the specific impact of these investments on the security frameworks of Cyprus and Sri Lanka, identifying the risks and vulnerabilities that arise from increasing economic dependence on China; and third, to provide a comparative perspective, highlighting how each country adapts its foreign policy to mitigate potential threats, thus forming a nuanced understanding of the interaction between foreign capital and national security.

The scientific novelty of this research lies in its critical examination of the intersection between international investments and national security, offering a fresh perspective on how states like Cyprus and Sri Lanka—often considered peripheral actors in global geopolitics—become central points in China's grand strategy. This demands innovative foreign policy measures, which have yet to be thoroughly explored in existing literature.

The research hypothesis suggests that while Chinese investments are economically beneficial, they impose significant security challenges on recipient states—challenges that manifest not only in economic dependence but also in geopolitical maneuvering, where the sovereignty of small states is subtly undermined as a result of strategic economic engagement. It proposes that the geopolitical conditions of Cyprus and Sri Lanka require a differentiated response, wherein each country must develop foreign policies that are flexible enough to reap economic benefits while robust enough to resist external influence, emphasizing the critical need to reassess the role of foreign investments in shaping national security policies.

1.4 Methodology Overview

The methods of this research are based on both theoretical and empirical approaches, each serving as a distinct but interconnected pathway to unraveling the complexities of Chinese investments within the framework of the Belt and Road Initiative (BRI).
The research will be conducted in several stages:

1. Data Collection: Primary data will include government reports, academic publications, and reputable news sources.
2. Case Study Analysis: Detailed case studies will be developed for Chinese investments in critical sectors of Cyprus and Sri Lanka, such as infrastructure, ports, and energy.
3. Trends Analysis: The data will be analyzed thematically to identify key patterns and trends in the impact of Chinese investments on national security and foreign policy.

4. Comparative Analysis: Findings from the case studies of Cyprus and Sri Lanka and other countries will be compared to identify commonalities and differences in how Chinese investments influence their security policies and international relations.

Theoretical methods include "comparative geopolitics", which allows for a cross-analysis of China's infrastructure policies in Cyprus and Sri Lanka, revealing not only their economic motives but also the political underpinnings. Empirical methods include the analysis of specific cases focused on particular projects, such as the Hambantota Port in Sri Lanka and real estate investments in Cyprus, where data on financial inflows, debt structure, and infrastructural changes are examined to draw conclusions about the implications for national security and economic autonomy.

1.5 Organization of Dissertation

This dissertation is structured into six main chapters, each addressing specific aspects of the research topic:

- Introduction – This chapter lays the groundwork for the dissertation by presenting the aims, innovations, research questions, hypotheses, and an overview of the methodology. It also provides an outline of the dissertation's structure to guide the reader.
- Chapter 2: Literature Review – This chapter examines existing academic literature on Chinese foreign direct investment (FDI), with a focus on the theoretical frameworks and empirical studies relevant to understanding China's investment activities. It also identifies gaps in the literature that the dissertation aims to address.
- Chapter 3: Research Methodology and Analytical Framework – This chapter explains the methodological approach adopted for the study, including the research design, data collection methods, and the analytical framework used to evaluate the strategic drivers and impacts of Chinese investments.
- Chapter 4: Strategic Drivers and Impacts of Chinese Investments – This chapter provides a comprehensive analysis of the factors motivating China's overseas investments. It covers the historical evolution of China's "Going Out" strategy, the Belt and Road Initiative's (BRI) economic and maritime dimensions, and the impact of Chinese investments on international relations and host nations' security policies.

- Chapter 5: The Case of Sri Lanka and Cyprus – This chapter conducts a comparative case study of Chinese investments in Sri Lanka and Cyprus. It explores the investment climates, strategic relevance, and regulatory environments of both countries. The chapter also examines the economic, political, and security implications of Chinese investments, highlighting opportunities, challenges, and lessons learned.
- Conclusion – The concluding chapter summarizes the dissertation's findings, discusses their implications for academia and policy-making, and offers recommendations for sustainable engagement with Chinese investments. It also highlights lessons for other recipient countries under the BRI framework.
- Bibliography – A comprehensive list of all sources cited throughout the dissertation.

Chapter 2 - Literature Review

The literature on Chinese political and economic strategies provides a comprehensive framework for understanding the influence of Chinese investments on national security and international relations, including Cyprus and Sri Lanka cases. One of the sources to study the Chinese political system and economic strategy is Susan V. Lawrence and Michael F. Martin's report, "Understanding China's Political System" (CRS Report for Congress, 2013), it provides an in-depth analysis of the structure and functions of China's political system. It highlights the central role of the Communist Party in governing and shaping economic policies, emphasizing the strategic use of economic tools to achieve political and geopolitical objectives. The other source is the "State and Market in Contemporary China: Towards the 13th Five-Year Plan" by the Center for Strategic and International Studies (2016), it explores the evolving relationship between the state and the market in China. It underscores the government's efforts to balance economic liberalization with state control, a dual strategy that facilitates large-scale international investments like those seen in the Belt and Road Initiative (BRI). Also it is important to use retrospective analysis, that's why we should use some sources about the success story of China, for example Wayne M. Morrison's report, "China's Economic Rise: History, Trends, Challenges, and Implications for the United States" (CRS Report, 2018), it outlines China's rapid economic growth and its strategic implications and Shaun Breslin's work, "Government-Industry Relations in China: A Review of the Art of the State" (SGR Working Paper 272/10, 2010), examines the history of close relationship between the Chinese government and industry. This relationship is pivotal in understanding how state-owned enterprises (SOEs) function as instruments of state policy in international investments, which is crucial for assessing the strategic impacts of Chinese projects in other countries.

Besides economic factors, it's important to study Chinese foreign policy, so we planned to use Jie Y. and L. Ridout's briefing paper, "Who Decides China's Foreign Policy?" (Chatham House, 2021), it discusses the roles of central government, provincial authorities, and SOEs in shaping China's foreign policy. This analysis helps explain the complexities and motivations behind China's strategic investments and their implications for national security in host countries. and as for the BRI project: A.A. Kireeva's articles, "The Belt and Road Initiative: Content, Goals, and Significance" (Comparative Politics, 2018) and "21st Century Maritime Silk Road: Implementation in Southeast and South Asian Countries" (in "Modern

China's Development Model: Assessments, Discussions, Forecasts," 2019), provide detailed insights into the BRI's objectives and implementation. Kireeva highlights the strategic and economic goals of the BRI, emphasizing its role in expanding China's influence in key regions, including Southeast Asia and the Indian Ocean. One of the important terms in case of Chinese investments is Debt-Trap Diplomacy, of the works in that sphere is L. Jones and S. Hameiri's paper, "Debunking the Myth of 'Debt-trap Diplomacy': How Recipient Countries Shape China's Belt and Road Initiative" (Chatham House, 2020), it critically examines the concept of debt-trap diplomacy. Their analysis, particularly focused on Sri Lanka and Malaysia, provides evidence that recipient countries have agency and strategic considerations in their engagements with Chinese investments and the second article is policy paper by J. Hurley, S. Morris, and G. Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective" (CGD, 2018), discusses the financial implications of BRI projects. This analysis is critical for understanding the economic and security risks associated with large-scale infrastructure investments funded by Chinese capital. Peter Cai's report, "Understanding China's Belt and Road Initiative" (Lowy Institute for International Policy, 2017), and the edited volume by M. Dian and S. Menegazzi, "New Regional Initiatives in China's Foreign Policy: The Incoming Pluralism of Global Governance" (Palgrave Macmillan, 2018), offer theoretical frameworks for understanding the motivations and impacts of Chinese foreign investments. These works provide a broader context for analyzing specific case studies like Cyprus and Sri Lanka.

The methodological basis of this research is founded on an approach that synthesizes geopolitical analysis with economic theory to uncover the complex dynamics of Chinese investments within the framework of the Belt and Road Initiative (BRI) – a project whose motives extend beyond mere infrastructure development into the realm of global strategic positioning. The BRI serves not only as a means for China's economic expansion but also as a long-term strategy to secure critical resources for future generations. This research considers the intersection of "economic sovereignty" (a term by Wang, Z., & Shiyu, T., 2023), which defines how dependence on resources is shaped within international economic agreements, and "geopolitical leverage" (Li, M, 2020), where investments become a tool of political influence over recipient countries such as Cyprus and Sri Lanka—illustrating how China's economic outreach often conceals hegemonic ambitions.

Employing a comparative analysis method of specific situations, this study relies on both qualitative and quantitative analysis, particularly drawing on the work "Challenging the Belt and Road Initiative: The American and European alternatives" (Masina, P., 2022), which emphasizes the West's response to the BRI through initiatives like "Building a Better World" and "Global Gateway," reflecting the geopolitical rivalry that mirrors the global chessboard of economic competition in the post-Cold War era. Through this lens, the research highlights the concept of "infrastructure diplomacy" (Ahmed, Z., & Sheikh, M., 2021), which reflects how the development of ports and transportation networks in Sri Lanka, such as the Hambantota Port, becomes a tool for controlling regional maritime routes—thereby expanding China's sphere of influence in the Indian Ocean, as confirmed by A. Shah (2019).

The methodological novelty of the research is manifested in the interdisciplinary integration of "geo-economic competition" (H. Yu, 2017) and "resource sovereignty" (M. Carrai, 2018), allowing for a nuanced analysis of how Chinese investments are not monolithic but rather adapt to local political and economic conditions—this adaptability is a key feature of China's foreign investment strategy, as demonstrated by L. Cheng (2016). Furthermore, the study employs a relational, multi-scalar approach advocated by Liu, Z. et al. (2020), exploring how state and non-state actors in China collaborate to achieve various objectives, from profit maximization to strategic positioning, particularly in the infrastructure sector. Applying these frameworks, the authors of the study propose the hypothesis that while Chinese investments may be beneficial for countries like Cyprus and Sri Lanka in the short term, they pose significant long-term risks to their national security—risks that are primarily rooted in increasing economic dependence and erosion of political sovereignty, as detailed in the work of G. Gershuni et al. (2020). The study argues that the adaptive nature of Chinese investment policy—particularly its emphasis on the "port-park-city" model (Z. Liu et al., 2020)—allows China to consolidate its influence in strategically important regions, subtly reshaping the geopolitical landscape to its advantage. Thus, the hypothesis not only underscores the economic risks associated with debt diplomacy but also suggests a geopolitical shift, where Chinese investments serve as a mechanism for altering regional power balances, especially in contentious areas such as the Eastern Mediterranean and the Indian Ocean.

This literature review establishes a foundation for understanding the strategic implications of Chinese investments in Cyprus and Sri Lanka. By integrating insights from political, economic, and strategic perspectives, this review highlights the complex interplay between national security, international relations, and economic policies driven by China's BRI. These sources collectively underscore the significance of Chinese investments in reshaping the geopolitical and economic landscapes of recipient countries.

Key points:

Source	Focus/Theme	Key Points
1. Susan V. Lawrence & Michael F. Martin (2013). Understanding China's Political System	China's political structure and governance	- Examines the Communist Party's central role.- Strategic use of economic policies for political objectives.
2. CSIS (2016). State and Market in Contemporary China: Towards the 13th Five-Year Plan.	Evolving state–market relationship in China	- Balancing economic liberalization with state control.- Facilitates large-scale global investments like the BRI.
3. Wayne M. Morrison (2018). China's Economic Rise…	China's economic growth trajectory & impacts	- Rapid economic development & global market role.- Strategic implications for the U.S. in trade & tech.
4. Shaun Breslin (2010). Government-Industry Relations in China…	Govt–industry collaboration in China	- Close historical relationship between govt & industry.- SOEs function as policy tools.
5. Jie Y. & L. Ridout (2021). Who Decides China's Foreign Policy	Foreign policy decision-making in China	- Central govt, provincial authorities, and SOEs all matter.- Complex layers influence policy direction.
6. A.A. Kireeva (2018, 2019). The Belt and Road Initiative: Content, Goals...; 21st Century Maritime Silk Road…	BRI objectives & implementation in Asia	- BRI's strategic & economic aims.- Focus on SEA & Indian Ocean expansion.
7. L. Jones & S. Hameiri (2020). Debunking the Myth of 'Debt-trap Diplomacy'	Reassessing "debt-trap diplomacy"	- Questions idea that China alone traps countries in debt.- Recipient countries like Sri Lanka, Malaysia have agency.
8. J. Hurley, S. Morris, G. Portelance (2018). Examining the Debt Implications of the BRI…	Financial & debt risks of BRI	- Large infrastructure can create debt pressures.- Highlights need for transparent risk management.
9. Peter Cai (2017). Understanding China's Belt and Road Initiative	Overview & rationale of the BRI	- Summarizes BRI's geopolitical & economic drivers.- Aims to open new trade routes & markets.
10. M. Dian & S. Menegazzi (eds.) (2018). New Regional Initiatives in China's Foreign Policy…	China's emerging global governance approaches	- Examines regional strategies under BRI.- China's new initiatives & regional policies.
11. Masina, P. (2022). Challenging the Belt and Road Initiative…	Comparative analysis of BRI vs. Western alternatives	- Western responses like "Building a Better World," "Global Gateway."- Reflects post–Cold War competition in infrastructure.

Chapter 3 - Research Methodology and Analytical Framework

3.1 Objectives and General Approaches

The overall goal of this study is to reveal the complex interconnections between Chinese foreign investments and the national security of recipient states, illustrated by the examples of Cyprus and Sri Lanka. Drawing on the objectives set out in the earlier chapters and bearing in mind the research questions, this chapter describes the methodological steps required to achieve the stated scientific results.
The specific objectives of the research are:

- To determine the key drivers (strategic, economic, political) of Chinese investments in the economies of Cyprus and Sri Lanka.
- To examine how these investments affect the national security and foreign-policy decision-making of the two countries under consideration.
- To establish the role of the Belt and Road Initiative (BRI) in expanding China's economic and political presence in the Eastern Mediterranean and in the Indian Ocean basin.
- To compare the risks (debt dependence, dual-use infrastructure, political influence) and benefits (direct investment in infrastructure, GDP growth, improved logistics) in both case studies.
- To develop recommendations for creating a balanced policy for attracting external capital while considering the interests of national security and sovereignty.

The main approaches of the research can be characterized as follows:

- **Comparative approach**: Makes it possible to compare the experience of two geographically distant yet in some respects similar countries (Cyprus and Sri Lanka) faced with the task of attracting Chinese investments while maintaining independence in decision-making.
- **Interdisciplinary approach**: Incorporates theories of international relations (neorealism, liberal-institutional analysis, etc.), economic analysis (concepts of economic security, the "debt trap"), and political science (the "bandwagoning" theory, the "resource sovereignty" concept).

- **Geopolitical analysis**: Examines changes in regional security architecture; for example, for Cyprus—interaction with the European Union and NATO, and for Sri Lanka—competition between China and India.
- **Qualitative content analysis**: Applied to official documents, political leaders' statements, cooperation memoranda, as well as to interviews and statistical data from open sources (government reports, databases, IMF and OECD analytical materials, etc.).

3.2 Research Methods

Given the complexity of the topic and the necessity of a deeper understanding of the hidden mechanisms of political influence, the study employs several groups of methods:

1. **Analysis of documents and secondary sources**:
    - **Official reports** (governments of Cyprus, Sri Lanka, and the PRC, IMF and World Bank reports, etc.) for identifying financial volumes, debt parameters, and the structure of investments.
    - **Scholarly literature** (articles, books, working papers from research centers) on geopolitics, economic diplomacy, the BRI, and "debt diplomacy."
    - **Media analysis** (including English-language sources and local media in Cyprus, Sri Lanka, and China) for understanding the public discourse surrounding Chinese investments.
2. **Case Study Analysis**:
    - **Cyprus**: Investments in real estate, infrastructure (potential port expansions and energy projects), and IT/telecom (possible involvement of major Chinese companies), and their impact on the foreign-policy course of Cyprus as an EU member.
    - **Sri Lanka**: Large-scale infrastructure projects (Hambantota Port, Colombo modernization, highways, energy facilities) and their consequences (vulnerability to debt, a 99-year port lease, etc.).

3. **Comparative Analysis**:
    - Comparing key indicators: debt levels, the share of Chinese investments in GDP, the structure and domain of FDI, changes in foreign-policy behavior, debates about security and sovereignty.

- Examining the overall logic of "bandwagoning" in Laos and Cambodia as additional examples where "credits for influence" also manifest themselves (analogous to Cyprus and Sri Lanka).

4. **Content analysis of political statements (Elite Discourse Analysis)**:
   - Studying the rhetoric of leaders of Cyprus and Sri Lanka regarding the BRI (e.g., calling someone "the most reliable friend," etc.).
   - Comparing this discourse with concrete security-related actions (changes in defense agreements, FDI monitoring regimes, parliamentary debates over sovereignty issues).

3.3 Study Limitations

1. **Data availability**:
   - The question of transparency concerning financial agreements with China is often complicated by the lack of full information about "hidden" debts or contract terms.
2. **Geographical constraints**:
   - The study covers two "island" nations, but the findings are not fully representative of other regions (Africa, Latin America), even though elements of "debt diplomacy" are present there as well.
3. **Dynamic current circumstances**:
   - China's policy and the situations in these countries (Cyprus and Sri Lanka) can rapidly change due to internal crises or global economic shocks, which could affect certain conclusions of the dissertation by the time it is completed.

3.4 Levels of Analysis

To obtain a more comprehensive understanding of how Chinese investments influence international relations and national security, it is advisable to apply a multi-level analysis:

1. **Individual level**
   - Identifying the roles played by specific political leaders (presidents, prime ministers, finance or foreign ministers), their personal ties to Chinese corporations or diplomatic structures that influence agreement outcomes.

2. **Domestic/State level**
    - Evaluating investment regulation institutions, transparency in public administration, the degree of elite involvement, and the influence of public opinion (especially regarding “threats to sovereignty”).
    - Exploring the evolution of FDI laws and the roles of parliament or government commissions responsible for security, etc.
3. **Regional level**
    - Considering regional dynamics:
        - For Cyprus—the EU, NATO, the Eastern Mediterranean (Greek–Turkish competition), and the interests of other powers (the U.S., Russia).
        - For Sri Lanka—China–India rivalry in the Indian Ocean.
    - Examining how China’s investments fit into or conflict with existing regional frameworks and power balances.
4. **Global level**
    - Embedding the cases in the context of the Belt and Road Initiative (BRI) as part of China’s overarching strategy for global economic dominance and the expansion of new institutions (the AIIB, etc.).
    - The responses of other global actors: EU, G7, BRICS, etc.

Chapter 4 - Strategic Drivers and Impacts of Chinese Investments

4.1 Global Context of Chinese Investments

In the early years of the twenty-first century, Chinese outbound investments underwent a striking surge. By 2000, the country had become an increasingly influential actor in the global economy, but its overseas capital deployments were still relatively modest. Following China's accession to the WTO in 2001, the momentum shifted dramatically. China began scaling up both inflows (of which it is now the world's second-largest recipient) and outflows of foreign direct investment (FDI). According to data from the World Bank, the inward FDI flow into China exceeds USD 1.5 billion, while its outward FDI surpasses USD 1.3 billion (World Bank; Morrison, 2018, p. 47). Coupled with some USD 5 trillion in foreign loans provided worldwide by Chinese institutions by 2019 (Nitta, 2016; Li, 2020), Beijing's economic might has grown into a key determinant in the global FDI landscape.
Several turning points underscore this shift. First, China's entry into the WTO laid the groundwork for integration into global trade networks, prompting domestic companies—often backed by state policy banks—to invest abroad. Second, the global financial crisis of 2008 accelerated China's "going out" strategy, as Beijing saw opportunities to invest in distressed foreign assets and infrastructure, notably in Asia, Africa, and Europe. Finally, the launch of the Belt and Road Initiative (BRI) in 2013—a moment described by some scholars as the "capital surge" - refined and formalized China's outward investment strategy (Zhang, 2015; Arase, 2016).

Such growth in Chinese FDI is highly consequential for international relations and national security. Current UNCTAD figures show that, despite global disruptions caused by the COVID-19 pandemic, FDI flows reached USD 1.6 trillion in 2021, rebounding from USD 859 billion in 2020, a global slump of 42% due to the pandemic (Hurley et al., 2018). Within these volatile conditions, China not only emerged as a major lender—some estimates suggesting over USD 5 trillion total in overseas financing (Nitta, 2016)—but also as a prime source of equity investments. This investment clout grants China substantial leverage: from acquiring stakes in critical infrastructure (ports, energy grids, telecommunications) to broadening supply-chain interdependencies that may enhance or constrain recipient states' diplomatic and defense autonomies (MOFA, 2015; Breslin, 2010).

Although, at first glance, China's overseas deals—ranging from building highways in Africa to investing in real estate in Europe—appear rooted in economic goals (securing resources, expanding markets), they carry profound strategic and security ramifications. Large-scale infrastructure investments can shift the sovereignty calculus of recipient states, particularly when involving essential commercial ports or digital networks like 5G technology (Tiezzi, 2017; Nitta, 2016). In certain cases, loans for infrastructure projects may impose unsustainable debt burdens, fueling controversies over "debt-trap diplomacy" (Jones & Hameiri, 2020)—though some researchers challenge the scope of this phenomenon (Hurley et al., 2018; Li, 2020).

China's emphasis on maritime routes (the Maritime Silk Road) and land corridors (the Silk Road Economic Belt) extends Beijing's strategic reach from East Asia to Africa and Europe. In doing so, it influences a host of defense considerations, such as foreign naval presence or alliances in the Indo-Pacific (Wibisono, 2019; Khurana, 2016). This new "economic diplomacy" also intersects with the principle of territorial integrity and non-interference in domestic affairs—core tenets of Chinese foreign policy—while simultaneously enabling Beijing to gain leverage in trade negotiations, voting blocs in multilateral organizations, and supportive stances on issues from Xinjiang to Taiwan (Salitskii & Semenova, 2016).

Hence, the central question shaping this chapter arises: How do Chinese economic engagements—embodied in its outward investments—transform international relations and security frameworks? Addressing it requires analyzing not only global FDI data and capital flows but also the policy imperatives embedded in China's "going out" strategy. The next sections trace this strategy's evolution, from early bilateral aid in the 1970s to the formal unveiling of the Belt and Road Initiative in 2013. Through that historical lens, we see how Beijing's financial instruments serve as tools of both economic development and strategic positioning on the global stage (Zhao, 2015; Chaturvedy, 2014).

4.2 Historical Evolution of China's "Going Out" Strategy

In the 1970s and 1980s, China's overseas engagements largely took the form of small-scale aid and diplomatic gestures linked to Mao-era principles of solidarity with developing nations, notably in Africa (Breslin, 2010). During this period, Beijing prioritized domestic development and seldom risked large capital outlays abroad. The environment changed subtly in the early 1990s when Deng Xiaoping's reforms spurred growth, and China began experimenting with limited commercial loans to resource-rich nations. Notably, Chinese policy aimed to secure stable commodity supplies—oil, minerals, and metals—through modest "infrastructure-for-resources" deals in states such as Sudan, Zambia, and others in Asia (Nitta, 2016; MOFA, 2015).

Gradually, Beijing transitioned to more systematic forms of outward FDI. The impetus included internal directives to diversify foreign exchange reserves and to counter the West's dominance in global finance. By the late 1990s, Chinese state-owned enterprises (SOEs) were venturing abroad under government guidance, forging the basis for a more proactive "going out" policy. This initial "pilot" phase set a critical foundation for China's subsequent leaps in overseas investments, culminating in formal state policy by the early 2000s (Lawrence & Martin, 2013).

China's 2001 accession to the WTO acted as an inflection point. It not only opened Chinese markets to more external trade but also legitimized China's presence in global commerce. Domestic firms—particularly SOEs supported by policy banks such as the Export-Import Bank of China (EXIM) and the China Development Bank—found it easier to finance large infrastructure deals overseas (Li, 2020; Kireeva., 2021). Chinese outward investments thus scaled up from a few billion dollars annually to tens of billions by the mid-2000s, eventually surpassing USD 100 billion in annual flows around 2010–2011 (UN data in Tiezzi, 2014).
This period also saw an expansion in sectoral reach: beyond raw materials, Chinese enterprises began investing in manufacturing, telecommunications, port operations, and real estate in emerging economies. The global financial crisis of 2008 further bolstered China's "going out," as Western capital retreated, leaving a vacuum for Chinese investors to fill. By 2012, China's outward FDI stock had reached USD 531.9 billion, more than double its 2007 level (State and Market in Contemporary China, 2016). Countries on every continent began noticing the geopolitical undertones of these economic partnerships—especially in cases of critical infrastructure or high-technology sectors.

Arguably the largest leap in China's "going out" strategy came in 2013, when President Xi Jinping announced the One Belt, One Road vision—later rebranded the Belt and Road Initiative (BRI) (Zhang, 2015; Chaturvedy, 2014). Structured around the "Silk Road Economic Belt" (land routes through Central Asia and onward to Europe) and the "Maritime Silk Road" (sea routes through the Indian Ocean, Red Sea, and Mediterranean), the BRI provided a comprehensive narrative and policy framework for Chinese investments abroad.

This elevated existing bilateral projects into a consolidated global plan, often backed by new institutions like the Asian Infrastructure Investment Bank (AIIB) and extended lines of credit from EXIM Bank and the China Development Bank (Dian & Menegazzi, 2018).

In the wake of the BRI unveiling, Chinese outward FDI soared. By 2016, official figures placed China's annual outbound investment at over USD 200 billion—a significant jump from a decade earlier (Cai, 2017). The initiative targeted infrastructure connectivity (railways, highways, ports, pipelines), financial integration (cross-border RMB usage, policy bank lending), and people-to-people exchanges (cultural and educational programs). The scope extended across Asia, Africa, Latin America, and Europe, rendering China a pivotal financier of global infrastructure projects that frequently intersect with local security policy concerns. For instance, port acquisitions in Sri Lanka (Hambantota) or negotiations in Europe (Piraeus, Greece) stirred debate on possible dual-use or strategic implications (Wibisono, 2019).

Thus, the BRI formalized what had been incremental expansions of Chinese overseas investment into a defining feature of 21st-century global economic governance. While the BRI's exact capital flow statistics can be elusive—some estimates place total pledged or executed projects in the trillions of dollars—the rising tide of Chinese FDI under BRI programs has reoriented the negotiation strategies of partner states and the defensive measures of external powers, particularly the U.S. and major EU economies (Hurley et al., 2018; Jones & Hameiri, 2020). As subsequent sections will show, these developments have broad security ramifications—port expansions potentially serve as "pearl" facilities for naval use, telecom expansions can raise data privacy concerns, and extensive loan portfolios risk entangling recipient nations in complex debt obligations.

4.3 Strategic Motives Behind Chinese Investments

One of the foremost strategic imperatives driving China's outbound investments is the pursuit of secure maritime and overland trade routes, ensuring unhindered access to vital resources and consumer markets. By 2020, over 80% of China's imported crude oil transited maritime corridors, making energy security intimately linked to sea-lane protection (Arase, 2016; Nitta, 2016). Specifically, the Strait of Malacca in Southeast Asia and the Suez Canal in the Middle East–North Africa region function as pivotal chokepoints for Chinese raw material imports and manufactured exports. Any instability—such as political tensions in the Persian Gulf or blockages of critical straits—could threaten China's energy flow and disrupt global commerce.

Consequently, Beijing leverages infrastructure investments in ports, pipelines, and railways under the Belt and Road Initiative (BRI) as hedges against these vulnerabilities (Zhao, 2016; Chaturvedy, 2014). By 2019, Chinese firms reportedly managed or held stakes in over 42 ports across 34 countries, often financed by policy banks such as the Export-Import Bank of China (EXIM) and the China Development Bank (Tiezzi, 2014; Khurana, 2016). This maritime expansion extends across the Indian Ocean and into the Mediterranean, underscoring the concept of the Maritime Silk Road. For instance, acquisitions or expansions in Sri Lanka's Hambantota Port and Greece's Piraeus Port offer transit nodes that reduce reliance on single routes, mitigating potential choke-point disruptions. Similarly, overland pipeline projects to Central Asia—such as the China–Central Asia Gas Pipeline—diversify supply sources and diminish the country's near-total dependence on maritime shipping lanes (Li, 2020).

In parallel, Chinese investment strategies target overland railways (e.g., the China–Europe Railway Express), thus complementing maritime routes and enhancing the resilience of logistical chains (Zhang, 2015; Salitskii & Semenova, 2016). By forging and financing these cross-continental corridors, China effectively diminishes both time and cost in trade while solidifying bilateral relations with key transit states. As a result, what might appear purely economic—building or upgrading a port, railway, or pipeline—carries profound security implications: guaranteeing resource inflows, offering alternate supply lines, and extending China's capacity to project influence in strategic maritime theaters.

Beyond mere trade and resource considerations, China's increasing portfolio of overseas investments confers significant diplomatic leverage. Under the BRI, Chinese loans and construction projects often come bundled with partnership diplomacy, facilitating pro-China stances in international forums (Zhao, 2015; Kireeva., 2021). By 2023, upwards of 150 countries (local data vary) had signed memoranda of understanding related to the BRI, amplifying Beijing's presence across Asia, Africa, Latin America, and parts of Europe (MOFA, 2015).

This expanded influence materializes in several ways. First, through financial engagement—whether lending or investing in large-scale infrastructure—recipient states can become

reliant on Chinese capital. Consequently, they might side with Beijing on high-level issues, such as votes in the UN General Assembly or specialized bodies, or adopt supportive positions regarding Taiwan, Xinjiang, or China's maritime claims (Tiezzi, 2017; Jones & Hameiri, 2020). Second, these capital flows often forge enduring "strategic partnerships," as seen in the "comprehensive strategic partnership" or "strategic partnership" nomenclature that China has concluded with dozens of countries, from Europe to Africa (Zhang, 2015).
In practice, examples of such leverage are evident when states publicly back China's foreign policy positions in the UN or other international organizations. For Beijing, these relationships serve as bulwarks against Western-led critiques and bolster China's status as a leading global power championing alternative development pathways. Thus, while the BRI brand emphasizes "win-win cooperation," the resulting asymmetric reliance on Chinese financing can shape recipient states' foreign policy alignments and security postures (Arase, 2016; Khurana, 2016).

A third core driver of Chinese overseas investments involves pursuing technology and market expansions, particularly in high-value sectors like telecommunications, electronics, and digital infrastructure. Over the last decade, Chinese tech giants—Huawei, ZTE, Alibaba, Tencent—have not only become leaders in domestic markets but also sought to establish or acquire stakes in foreign firms and local networks (Wibisono, 2019). By 2022, Huawei alone had signed more than 90 commercial 5G contracts globally (internal estimates vary) and partnered with carriers in Europe, Africa, and Asia, delivering both hardware and integrated digital services (Nitta, 2016).

Such technological outward investments serve dual functions. Commercially, they secure fresh markets, fueling revenue growth and forging local digital ecosystems reliant on Chinese solutions. Strategically, these deals can create potential channels for data access, raising concerns over cybersecurity and the possibility of state-driven espionage or "backdoors" (Li, 2020). While Beijing officially rejects the idea that Huawei or other Chinese tech firms act as proxy intelligence arms, Western and regional security analysts frequently voice caution, exemplified by bans or partial restrictions on Huawei's 5G equipment in the U.S., Australia, UK, and segments of the EU (Zhao, 2015). Additionally, Chinese foreign direct investment in e-commerce, big data, and cloud computing fosters a broader "digital Silk Road," an extension of BRI that resonates with the necessity to shape global digital standards. Experts note that from 2018 to 2021, Chinese companies financed or built over 70 data centers worldwide, aiming to integrate e-government and e-commerce platforms with Chinese networks (Galkin et al., 2021). Meanwhile, acquisitions of smaller European robotics or AI startups reflect the impetus to absorb advanced technologies that can be adapted or replicated for China's domestic modernization (Breslin, 2010).

Hence, the technology dimension of Chinese outbound investment is not confined to typical resource or infrastructure sectors but extends to strategic industries with deep linkages to innovation capacity, intellectual property, and national security. The worry is that hosting nations—while benefitting from advanced telecom infrastructure or e-wallet solutions—might see an erosion of digital sovereignty and inadvertently strengthen Beijing's global tech dominance (Khurana, 2016). Such tensions illustrate how FDI, nominally an economic instrument, holds profound geopolitical ramifications in an era where data flows and connectivity have become central to states' security policies.

4.4 The Economic Belt and Road

Since the unveiling of the Economic Belt component of the Belt and Road Initiative (BRI) in September 2013, China has designated a series of key overland corridors to link its western and northern provinces with Central Asia, the Middle East, and Europe. In the original BRI documents, as well as in the subsequent Vision and Actions plan of 2015, policymakers highlighted the importance of six major land routes (Zhang, 2015; Zhao, 2015):

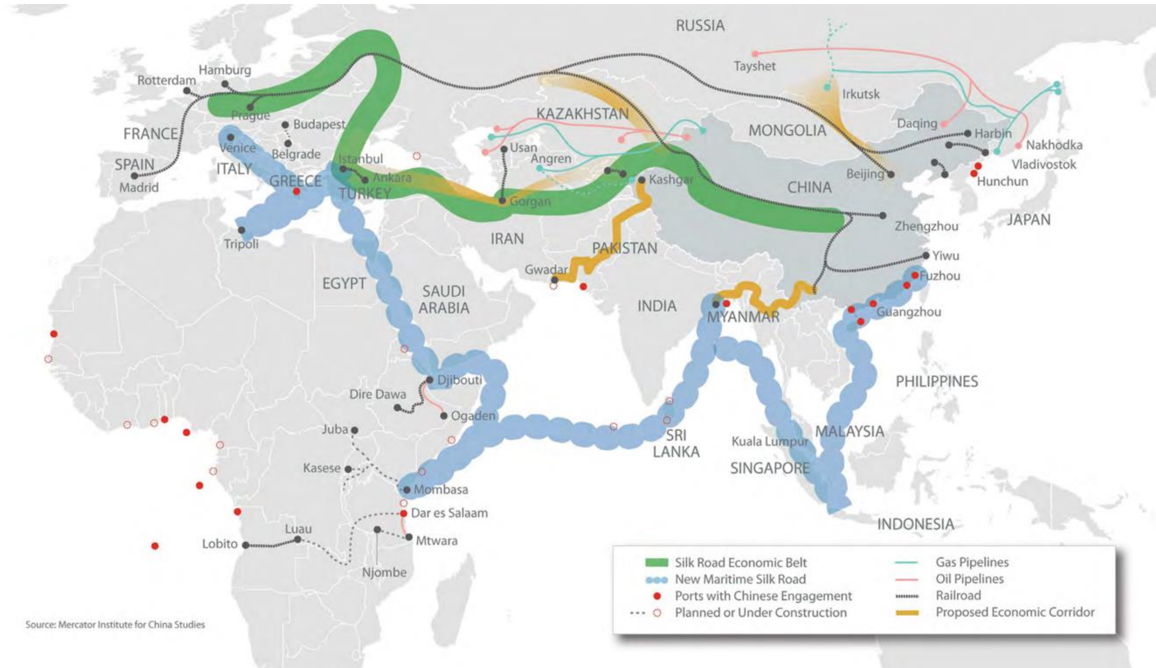
1. **New Eurasian Land Bridge** – Extending from eastern China (Jiangsu, Zhejiang) across Kazakhstan and onward to Russia and Europe. Key projects: high-speed rail connections, modernization of border logistics hubs, and industrial parks in western China's provinces to feed European markets.
2. **China–Mongolia–Russia Corridor** – Linking China's Inner Mongolia region with Mongolia and Russia, focusing on modernizing the Trans-Mongolian and Trans-Siberian networks, with potential spurs into Eastern Europe.
3. **China–Central Asia–West Asia Corridor** – Traversing Xinjiang and further into Kyrgyzstan, Tajikistan, Uzbekistan, and eventually reaching the Persian Gulf. Emphasis on railway modernization, gas pipeline expansions, and free trade zones to foster connectivity.
4. **China–Pakistan Economic Corridor (CPEC)** – Possibly the highest-profile corridor, running from Kashgar in Xinjiang to Gwadar Port on the Arabian Sea. Flagship BRI projects here include the Karakoram Highway expansion, rail links,

and energy pipelines. By 2020, total committed investments exceeded USD 60 billion in energy and infrastructure (Nitta, 2016; Li, 2020).

5. **China–Indochina Peninsula Corridor** – Connecting southwestern China (Yunnan and Guangxi) with Vietnam, Laos, Cambodia, Thailand, and Myanmar, focusing on high-speed rail, cross-border highways, and special economic zones.
6. **Bangladesh–China–India–Myanmar (BCIM) Corridor** – Facilitating transport from Yunnan into Bangladesh, India's eastern states, and Myanmar. Although slowed by geopolitical tensions, it includes an array of infrastructure initiatives in rail, road, and industrial developments.

Each corridor typically comprises railway expansions, energy pipelines, and industrial parks designed to foster new supply chains (Tiezzi, 2017; Arase, 2016). According to some estimates, Asia alone requires USD 8.3 trillion for domestic infrastructure and USD 290 billion for regional linkages through 2020 (Dian & Menegazzi, 2018). Beijing's impetus is to tap these financing gaps, using the China Development Bank, the Export-Import Bank of China, and the Silk Road Fund (capitalized at USD 40 billion since 2014) to underwrite roads, high-speed rail lines, and cross-border pipelines. The resulting networks cut transit times by up to 40%, facilitating trade and investment in the heart of Eurasia (MOFA, 2015).

Figure 1. Belt and Road Initiative Map



Source: Mercator Institute for China Studies

For many landlocked or transit states, the influx of Chinese capital for roads and industrial zones reshapes diplomatic and economic calculations. Countries like Kazakhstan and Uzbekistan, seeing an opportunity to diversify away from Russian economic dominance, have embraced China's corridor projects, revamping national development strategies to align with BRI funds (Zhao, 2016). In return, these states often adopt a more accommodating posture toward Beijing in regional affairs, supporting Chinese initiatives in the Shanghai Cooperation Organisation (SCO) or in the UN General Assembly.

Yet the growing debt from large-scale BRI infrastructure also raises concerns. Kyrgyzstan and Tajikistan, for instance, have accrued external debts to China amounting to 40–50% of total public debt in certain years (World Bank and IMF data; Jones & Hameiri, 2020). As a result, their diplomatic stances might shift, aligning with Beijing's positions on political issues, first of all about Xinjiang, because of the closeness of that turk's nations.

Overall, many transit nations recalibrate alliances—either turning more heavily toward Beijing or seeking balancing moves with other powers (EU, Russia, India) to offset China's economic influence. Indeed, observers note that some countries deploy the "China card" to extract concessions from Western financial institutions or to modernize their infrastructure with fewer political strings attached (Lawrence & Martin, 2013).

As China's "Belt" corridors radiate across Eurasia, major powers and regional neighbors respond with new or adapted security postures. The United States, while focused traditionally on maritime spaces, has begun reevaluating Central Asian and Middle Eastern strategies, wary that China's rail and pipeline expansions could translate into geo-economic leverage, diminishing U.S. access or influence (Li, 2020). Similarly, India sees the CPEC crossing disputed territory in Kashmir as an infringement on its sovereignty (Wibisono, 2019; Khurana, 2016). Indian policymakers have ramped up alternative corridor concepts, such as the North–South Transport Corridor (NSTC) linking India, Iran, and Russia, to compete with BRI corridors.

Russia, historically the dominant external power in Central Asia, initially viewed BRI with ambivalence. Over time, Moscow and Beijing developed frameworks (e.g., the "Greater Eurasian Partnership") to coordinate or "harmonize" the BRI with the Eurasian Economic Union (EAEU) (Zhang, 2015). Yet in practice, competition remains in fields like pipeline routing or influence over post-Soviet republics. Meanwhile, the European Union has launched connectivity initiatives of its own (the “EU–Asia Connectivity Strategy”) to ensure that Sino-centric corridors do not overshadow Brussels’ presence or hamper EU regulatory norms (Galkin et al., 2021).

4.5 The Maritime Silk Road: Sea Power and Port Infrastructure

Unveiled by President Xi Jinping in October 2013 during a speech to Indonesia’s parliament, the Maritime Silk Road initiative (МШП) parallels the land-based Silk Road Economic Belt. It envisions two broad sea routes: from Chinese ports through the South China Sea into the Indian Ocean and onward to Europe, and from the South China Sea into the southern Pacific (MOFA, 2015; local references). China depends on maritime trade for over 90% of its total goods imports/exports, making stable sea-lanes essential for continued economic growth. By 2022, Chinese shipping accounted for roughly 40% of global container throughput (Salitskii & Semenova, 2016). Hence, Beijing’s MSRI framework accentuates the development (or acquisition) of coastal and island ports, logistics facilities, and shipping management networks to solidify maritime trade links and mitigate vulnerabilities such as the “Malacca Dilemma” (Zhao, 2016; Chaturvedy, 2014).

Some critics interpret MSRI as a blueprint for expanded sea power, allowing the People’s Liberation Army Navy (PLAN) access to overseas bases or “dual-use” ports. Chinese sources, however, emphasize the MSRI’s “win-win” nature, stressing commercial cooperation, infrastructure upgrading, and cross-cultural exchange (Arase, 2016). In reality, both interpretations hold weight: ports integral to global shipping also function as strategic nodes if tensions or crises arise.

From 2014 onward, Chinese SOEs like COSCO Shipping, China Merchants Port, and CCCC escalated acquisitions and lease agreements in pivotal maritime hubs. By 2019, China had stakes in around 15 major ports in the Indian Ocean–Mediterranean corridor, including:

1. **Piraeus (Greece):** COSCO’s investment in 2016, scaling ownership to a 51% stake by 2021, turned Piraeus into the fastest-growing port in Europe, quadrupling container throughput (Zhang, 2015).

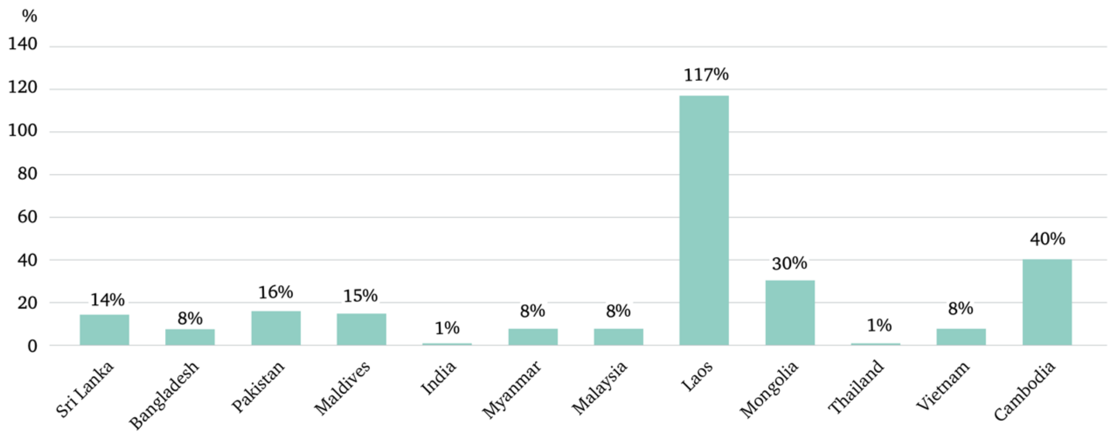
2. **Djibouti Port:** Next to the U.S. Camp Lemonnier base in the Horn of Africa, Djibouti's Doraleh Terminal came under partial Chinese management in 2017, raising Western concerns over naval presence (Khurana, 2016).
3. **Hambantota (Sri Lanka):** A 99-year lease to China Merchants Port triggered controversy about sovereign debt and potential military usage (Li, 2020).

Connectivity nodes are not confined to ports alone: they often encompass complementary industrial parks or "port-park-city" complexes that further embed Chinese companies in local economies (Wibisono, 2019). The question of "dual-use" emerges when large commercial terminals, capable of berthing deep-draft vessels, can be repurposed for naval refueling or logistics in crisis scenarios.

4.6 Security Policy Impacts in Host Nations

China's extensive overseas investments under the Belt and Road Initiative (BRI) have reshaped the bilateral frameworks and internal politics of numerous host countries. Governments in small or lower-income nations like Laos and Cambodia—both of which have cultivated unusually close ties with Beijing—frequently tout "win-win" cooperation. Yet the realities on the ground reveal a more nuanced picture, blending promises of massive infrastructure gains with mounting debt exposures and questions of sovereignty.

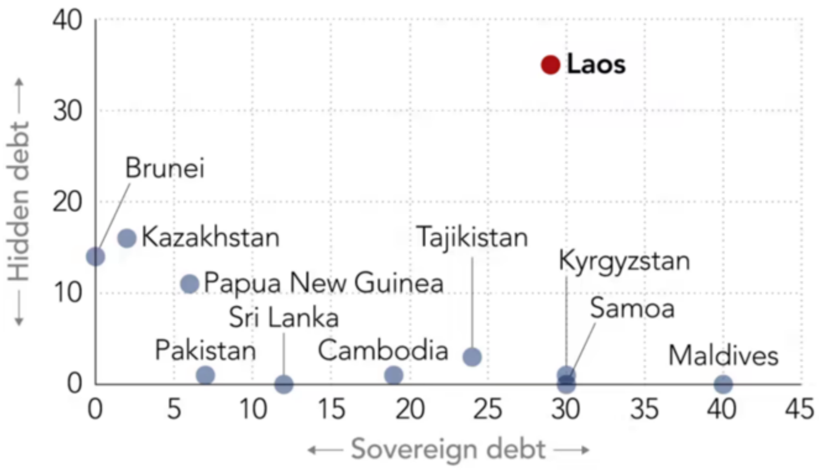
Figure 2. Total Chinese investment as a % of destination country's GDP (2018)



Source: LKI calculations based on data gathered from the American Enterprise Chinese Investment Database and the IMF, World Economic Outlook Database.

Laos exemplifies these paradoxes. By late 2022, it faced foreign debt totaling around 1.31.3 billion dollars annually through 2025, with over USD 12.2 billion of the country's total liabilities owed to China—equivalent to almost 65% of Laos' GDP (Nitta, 2016; Li, 2020). Although Vientiane praises Beijing's financing of railways and other strategic assets as a developmental boon, growing fiscal constraints led to surging inflation (exceeding 25%) and shortages of basic goods such as fuel. Locals quietly lament the communist government's lack of transparency, with observers warning that debt-for-equity "swaps" may result in China exerting direct control over Lao state entities or natural resources. Some commentators draw parallels to Sri Lanka, where similarly high levels of Chinese debt contributed to a broader economic meltdown.

Figure 3. Selected countries debts as percentage of GDP, 2000-17 data



Source: AidData

Cambodia has also embraced China's FDI and infrastructure, welcoming large inflows of capital for roads, real estate, and agricultural projects. Prime Minister Hun Sen routinely highlights Beijing as Phnom Penh's "most trustworthy friend." Still, critics caution that China's dominance in certain sectors—coupled with Cambodia's rhetorical support of Chinese foreign policy stances (for instance, on the South China Sea)—underscores a trend of disproportionate dependence, echoing "vassal-state" rhetoric (Hong Zhao, 2015).

Beyond bilateral relations, Chinese investments intersect with (and sometimes exacerbate) existing regional tensions:

- **Southeast Asia**: Laos' pivot toward heavy Chinese lending overlaps with its historical balancing act between Vietnam and Thailand. Cambodia's robust ties with Beijing also affect ASEAN unity, particularly regarding the South China Sea or broader Sino–U.S. rivalry (Arase, 2016).
- **South Asia**: Sri Lanka's experience with large Chinese-financed ports fuels India's anxiety over China's strategic footprint in the Indian Ocean (Hambantota and Colombo Port expansions). Meanwhile, Pakistan's alignment with the China–Pakistan Economic Corridor challenges India's sphere of influence (Khurana, 2016; Wibisono, 2019).
- **Eastern Mediterranean**: In Cyprus, nascent Chinese expansions in shipping or energy highlight the interplay with NATO–EU security frameworks. Though on a smaller scale than in Laos or Sri Lanka, any infrastructure investments must navigate a patchwork of Western alliances (Zender, 2019).

These overlapping security complexes confirm that BRI projects are seldom purely economic. Whether in the Mekong, Bay of Bengal, or Mediterranean, local authorities juggle immediate infrastructural gains against deeper shifts in regional alignments. States that rely on Chinese funds can align more closely with Beijing politically, occasionally straining ties with regional blocs or longtime partners (Jones & Hameiri, 2020).

At the global level, the BRI champions alternative governance structures, notably the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (BRICS bank). Such institutions help China position itself at the center of international development finance—partly complementing, partly challenging, the Bretton Woods framework dominated by the IMF and World Bank (Kireeva., 2021). As Beijing bankrolls more projects, it fosters cross-border value chains often linked to China's supply networks, tech standards, and currency usage (i.e., promoting the yuan).

One principal security concern arises where China, through majority stakes or extended leaseholds, effectively controls core transportation and energy nodes in host countries. In Laos, control over rail lines or special economic zones can impact the government's autonomy, given the state's high debt burden and limited foreign exchange reserves (Nitta, 2016; local references). Similarly, Sri Lanka lost operational authority over Hambantota Port for 99 years, spurring accusations that China can dictate commercial operations or selectively deny access to competing navies (Li, 2020).

Sovereignty debates likewise surface in smaller EU states like Cyprus, albeit with stricter regulatory oversight. Potential expansions in maritime terminals or LNG infrastructure require compliance with EU FDI screening rules, which can slow or dilute Chinese commercial influence (Chaziza, 2021). Nonetheless, local politicians and civil society sometimes question whether partial Chinese ownership might impose external policy constraints—particularly if future Sino–EU or Sino–U.S. tensions escalate.

Another focal point is whether Chinese-run commercial ports, roads, or airports can be turned into "dual-use" facilities. Although Beijing insists the BRI fosters trade facilitation, some host governments worry about the potential for stationing naval assets or submarines at commercial terminals, as was glimpsed in Sri Lanka (submarine visits to Colombo in 2014) (Wibisono, 2019). In Cambodia, occasional rumors about a Chinese naval presence at Ream Beach underscore how a "purely commercial" facility can morph into a strategic foothold if the host government acquiesces. Even landlocked Laos—despite no maritime domain—faces speculation over whether advanced infrastructure might indirectly facilitate PLA troop movements via rail in hypothetical scenarios (Hong Zhao, 2016).

Such concerns resonate globally among Western and regional militaries, fueling risk assessments about China's emergent "string of pearls" from the Indian Ocean into the Mediterranean. Dual-use infrastructure, critics argue, grants Beijing the logistical capacity to support far-flung naval operations, an advantage that, in turn, could recalibrate local defense postures (Khurana, 2016; Tiezzi, 2014).

Finally, large-scale Chinese loans can erode host nations' fiscal sovereignty and governance standards. Laos presents a salient example: local inflation soared above 25% in 2022, and the government's foreign reserves dwindled to about USD 1.3 billion, insufficient to cover annual debt obligations of a similar magnitude (Nitta, 2016).

4.7 Balancing Economic Benefits and Strategic Risks

China's investment footprint varies in scale but often prompts parallel debates about sovereignty, security, and economic alignment. Laos and Cambodia demonstrate how heavily indebted, smaller states might tilt strongly toward Beijing, risking overdependence but viewing BRI projects as a "no choice" path to modernization. Meanwhile, Sri Lanka's

Hambantota Port fiasco or Cyprus' partial Chinese port/service agreements highlight that even more modest or regionally overshadowed engagements can trigger strategic alarms and local tensions. In each instance, the lines between "win-win" and "imbalance" can be blurry, contingent on governance capabilities, transparency measures, and geopolitical calculations. Despite intensifying "debt-trap" criticisms, China is unlikely to retreat from global infrastructure financing, given its pursuit of secure trade routes, expanded technology influence, and a broader international role. Host countries, however, may exercise increasing caution, diversifying lending sources or imposing stronger FDI review processes. This trend aligns with moves by major powers and regional organizations—the EU's "Global Gateway," the Blue Dot Network from the U.S. and partners—to offer competing or complementary capital flows.

Global rivalries and local political factors will thus shape BRI's trajectory. Where states can transparently negotiate and maintain balanced debt levels, Chinese investments may genuinely foster growth while minimizing strategic pitfalls. Conversely, in authoritarian settings or nations with weak institutional checks, large Chinese loans could intensify sovereignty risks, raising the possibility of IMF bailouts or political upheavals, as seen in Sri Lanka. The unpredictability of Sino–Western tensions or domestic backlashes will continue to color future Chinese FDI engagement.

In sum, Chinese outbound investments are forging new alignments and challenging extant security frameworks. While the potential economic dividends are often sizable—especially for infrastructure-hungry countries—the security policy repercussions are equally profound. Ultimately, the BRI's success or failure—and the extent of its perceived "debt-trap" dynamics—will depend not only on Beijing's strategies but also on the capacity and agency of recipient states. By adopting prudent and transparent governance measures, smaller can potentially seize the genuine benefits of Chinese investment while mitigating both fiscal and geostrategic vulnerabilities.

Chapter 5 - The Case of Sri Lanka and Cyprus

5.1. Cyprus in the context of Chinese investments

5.1.1. The Investment Climate in Cyprus

Cyprus occupies a key geostrategic location at the crossroads of Europe, Africa, and Asia in the Eastern Mediterranean—a fact underscored by the discovery of substantial hydrocarbon deposits in its Exclusive Economic Zone (EEZ) (Cyprus Profile, 2024; Macrotrends, 2024). Over the past decade, this offshore energy potential has attracted significant interest from transnational corporations, facilitating a new wave of foreign direct investments (FDI) in the energy and infrastructure sectors (U.S. Department of State, 2024).

Cyprus's role in the region also intersects with China's strategic outreach. As part of Beijing's Belt and Road Initiative (BRI), Chinese companies are exploring opportunities in shipping, real estate, and energy-related projects, viewing Cyprus as a potential logistical hub for the Eastern Mediterranean (China Briefing, 2021; Mordechai Chaziza, 2021; Cyprus Mail, 2023). Although hydrocarbon discoveries have primarily drawn European and U.S. firms, Chinese investors—through state-owned and private enterprises—are increasingly assessing the local market (Cyprus Profile, 2024; Chaturvedy, 2014).

The Republic of Cyprus maintains a pro-FDI policy, actively courting investors in sectors such as shipping, energy, real estate, finance, education, and tourism (U.S. Department of State, 2024; Arase, 2016). Through its dedicated agency Invest Cyprus, the government offers various incentives (e.g., tax advantages, streamlined procedures) to facilitate foreign participation (Cyprus-China Business Association, 2024).
However, non-EU investors face several sector-specific restrictions:

1. Property Ownership: Individuals and companies from outside the EU may purchase a maximum of two properties for personal use; higher property acquisitions typically require local corporate structures (U.S. Department of State, 2024).
2. Energy Sector: Non-EU entities cannot invest in the production, transmission, or supply of electricity.
3. Media: Foreign ownership in local broadcasting companies is capped at 5% per investor, with a collective foreign ownership limit of 25% (Linklaters Blog, 2024).
4. Construction: Only EU nationals may register as construction contractors, restricting non-EU direct ownership in this industry.

5. Private Universities: Must not be under direct ownership of non-EU entities.
6. Banking: Acquiring more than 9.99% of a bank's shares requires prior approval from the Central Bank of Cyprus (U.S. Department of State, 2024).

Despite these limitations, the general legal and regulatory environment remains conducive to FDI, backed by a common law tradition inherited from the U.K. (U.S. Department of State, 2024).

Currently, Cyprus does not operate a binding investment screening regime outside sectoral licenses (e.g., for energy, finance). However, in alignment with EU regulations, the Cyprus plans to establish a formal FDI screening system under the Ministry of Finance. (EU Member States Without an FDI Regime, 2024; Zhao, 2015). This regulatory evolution parallels broader European Commission efforts to harmonize FDI reviews in strategic sectors like critical infrastructure and dual-use technologies (Khurana, 2016; Tiezzi, 2017). As an EU member state, Cyprus is bound by the acquis communautaire, granting primacy to EU directives and regulations in cases of conflict with national law (The EU-China Agreement Explained, European Commission). The forthcoming FDI screening legislation aims to align the RoC's investment policies with broader EU objectives, including ensuring national security and public order (Linklaters Blog, 2024; Khurana, 2016).

Cyprus's GDP reached USD 31.9 billion in 2023, up from USD 29.2 billion in 2022, reflecting a post-pandemic economic rebound (World Bank data in U.S. Department of State, 2024). FDI inflows for 2022 totaled approximately USD 425.3 million, representing about 1.5% of GDP (UNCTAD data in U.S. Department of State, 2024). Although the overall FDI volume remains modest, certain sectors—energy, shipping, and real estate—exhibit more robust engagement (Zhang, 2015; Zhao, 2015).
Opportunities for FDI:

1. Hydrocarbon Exploration: Potential for offshore gas discoveries fuels interest in LNG terminals, pipeline projects, and service industries supporting the energy value chain (Lloyd's Register, 2021; Nitta, 2016).
2. Maritime and Shipping: Cyprus ranks among the leading EU shipping registries, offering tax advantages and robust maritime infrastructure (Cyprus-China Business Association, 2024; Wibisono, 2019).

3. Real Estate and Tourism: The island's climate and coastline drive steady interest in hospitality and property development (Foreign Direct Investment in Cyprus, Macrotrends, 2024; Zhao, 2016).

Constraints for FDI:

1. Sectoral Restrictions: Non-EU entities face ownership limits in broadcasting, construction, and energy, potentially dampening investor enthusiasm (U.S. Department of State, 2024).
2. Geopolitical Tensions: Ongoing issues in the Eastern Mediterranean—including territorial disputes—can heighten political risk for energy projects (BEHorizon, 2019; Salitskii & Semenova, 2016).
3. Pending EU FDI Screening: While designed to enhance security, these measures may introduce additional bureaucracy and could slow down some foreign investment decisions (EU Member States Without an FDI Regime, 2024; Tiezzi, 2014).

In the broader context of the Belt and Road Initiative, Cyprus offers China a strategic foothold in the Mediterranean—close to key shipping routes and emerging energy corridors (China-Cyprus Builds Strategic Partnership, 2021; Khurana, 2016). Recent deals—like infrastructure projects related to LNG terminals—indicate growing interest (Seatrade Maritime News, 2019; Cyprus LNG Project Blueprint, 2021). This dynamic raises questions about international relations and security policies, as Cyprus's close ties with the EU, the U.S., and other major powers must balance with opportunities offered by Chinese investments (Cyprus Mail, 2024; Li, 2020).

From a comparative methodology standpoint, examining Cyprus side by side with Sri Lanka highlights varying regulatory frameworks and different levels of strategic vulnerability. While Sri Lanka's concerns revolve around port infrastructure and maritime security (Jones & Hameiri, 2020; Wibisono, 2019), Cyprus's scenario is more Euro-centric, shaped by the EU acquis and the energy sector's promise (Cyprus Profile, 2024; Zhang, 2015).

5.1.2. Chinese Investments in EU

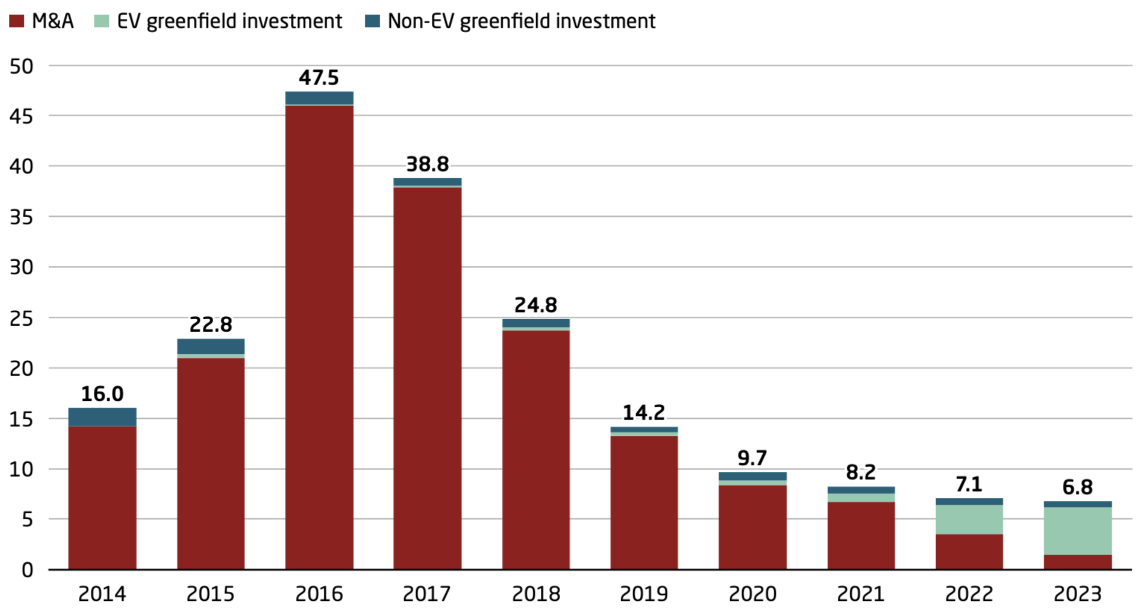
China's economic engagement in Europe has undergone notable fluctuations over the past few years, reflecting both domestic constraints in the People's Republic of China (PRC) and increasing scrutiny by European policymakers. In 2023, the volume of Chinese investments in Europe—encompassing the EU-27 member states and the United Kingdom—declined to EUR 6.8 billion, compared to EUR 7.1 billion in 2022, reaching its lowest level since 2010. This represents a 4.2% drop from the previous year (MERICS, 2023; Rhodium Group, 2023). Several factors contributed to this downturn, including weaker economic growth in China following the COVID-19 pandemic, increased capital controls (often aimed at preventing excessive outflows of foreign currency), and stricter investment screening in Europe (European Commission, 2024; Tiezzi, 2017; Chaturvedy, 2014).

One of the most prominent trends in 2023 was the marked contraction in mergers and acquisitions (M&A). M&A deals fell by 58% to just EUR 1.5 billion, the lowest figure since the financial crisis of 2009. By contrast, greenfield investments represented 78% of all Chinese investments in Europe—an increase from 51% in 2022, and a substantial leap from the average of 9% recorded between 2012 and 2021 (Nitta, 2016; MERICS, 2023). Analysts attribute this shift to multiple factors:

1. Regulatory Barriers: As Europe tightens its screening of foreign takeovers in "sensitive" industries (e.g., semiconductors, critical infrastructure, and dual-use technologies), Chinese companies find it easier to build new facilities rather than attempt acquisitions that could face national security reviews (Zhao, 2015; Li, 2020).
2. Strategic Industrial Priorities: Many Chinese firms are choosing greenfield projects to secure local production capabilities, especially in the electric vehicle (EV) and battery sectors. This strategy helps them circumvent potential tariffs on imports and reduce supply chain disruptions (Salitskii & Semenova, 2016; Rhodium Group, 2023).

As a result, battery manufacturing, EV production, and related supply-chain industries comprised approximately 70% of Chinese capital inflows into Europe in 2023, totaling EUR 4.7 billion—a 61% increase from 2022 (Galkin et al., 2021; MERICS, 2023). Industry giants like CATL, AESC, and Huayou Cobalt have major projects in Hungary, Germany, and France, signaling that green technologies remain a primary driver for Sino-European investment flows.

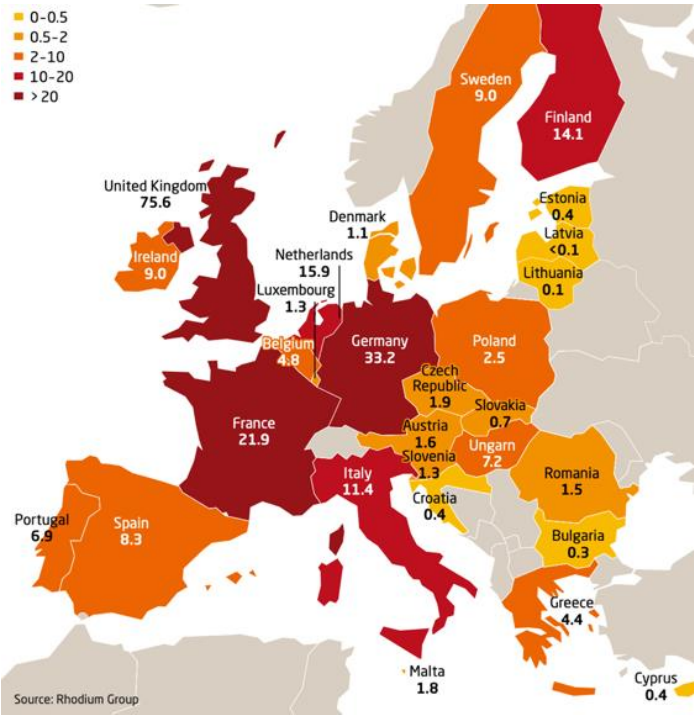
Figure 4. Chinese Investment in Europe, in EUR billion



Source: Rhodium Group

Against the backdrop of overall stagnation, Hungary emerged as a leading recipient, attracting 44% of all Chinese investments in Europe in 2023, equivalent to about EUR 2.99 billion (Rhodium Group, 2023). Key investments in Hungary include CATL's battery production plant and the BYD EV facility planned for 2026. This strategic focus on Central and Eastern European (CEE) nations extends to Slovakia and Poland, where companies like Geely are constructing plants valued at EUR 1.2 billion for EV manufacturing.

Figure 5. Chinese investment by country or country groups, cumulative volume (2000-2023), in EUR billion



Source: Rhodium Group

Although the EV sector accounted for the lion's share of China's FDI in Europe in 2023, other sectors continue to secure notable investment volumes, averaging EUR 3.1 billion annually from 2021 to 2023 (Zhao, 2016; Nitta, 2016):

- Healthcare: This sector attracted an average of EUR 738 million per year between 2021 and 2023, reflecting China's broader push into pharmaceuticals and medical equipment (Chaturvedy, 2014). Major deals include Mindray Medical's acquisition of DiaSys Diagnostic Systems in Germany for EUR 143 million, and WuXi Biologics investing EUR 532 million in Ireland-based production facilities.
- Consumer Goods and Entertainment: Accounting for 32% of non-EV Chinese investments, these deals range from Hillhouse Capital's purchase of Philips Home Appliances to Tencent's acquisition of British video game studio Sumo Digital.
- Information and Communications Technology (ICT): Spurred by evolving European data protection regulations, ByteDance and other Chinese tech firms have invested in new data centers across Europe, particularly in Ireland (European Commission, 2024).

Despite modest diversification, Chinese investors face heightened regulatory hurdles. The proportion of notifications regarding Chinese investments submitted to the European Commission under its Foreign Direct Investment (FDI) screening mechanism dropped from

8% in 2020 to 5% in 2022, mirroring the overall decline in Chinese deals (MERICS, 2023). However, the scope of these screenings has expanded:

- Several proposed transactions were blocked outright in 2023 (e.g., the acquisitions of KLEO Connect in Germany and HiLight Research in the UK) due to national security concerns.
- Other deals received conditional approvals, such as Alibaba's investment in Visable (Germany) and Sinochem's increased stake in Pirelli (Italy), which included strict conditions designed to safeguard local strategic assets (Li, 2020).

By April 2024, 24 of the EU's 27 member states had adopted FDI screening legislation; only Greece, Croatia, and Cyprus remained without fully operational regimes (Linklaters, 2024; Wibisono, 2019). Cyprus plans to establish its screening mechanism by the end of 2024, further closing investment loopholes (Cyprus Mail, 2024; Khurana, 2016).

Despite headwinds in Europe, Chinese outward FDI globally reached USD 147.9 billion in 2023, a modest 0.9% annual increase, with non-financial investments growing 11.4% to USD 130.1 billion (MOFA, 2015; EY, 2023). Much of this growth has been directed toward Belt and Road Initiative (BRI) partner countries, which received USD 31.8 billion (+22.6% from 2022). Notably:

- M&A transactions worldwide rose 20.3% to USD 39.8 billion, albeit with 16.3% fewer total deals, highlighting a shift toward larger, strategic acquisitions.
- Engineering, Procurement, and Construction (EPC) contracts in BRI states accounted for 86% of newly signed projects (USD 227.2 billion), emphasizing the ongoing focus on infrastructure and logistics corridors (Zhao, 2016; Jones & Hameiri, 2020).

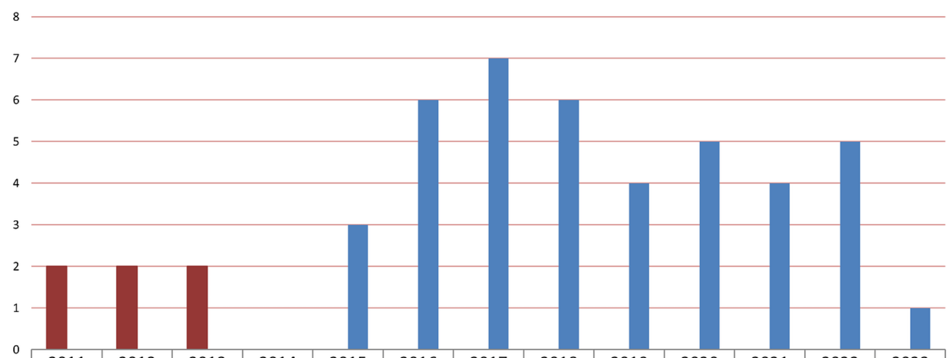
Compared to these burgeoning markets in Asia, Africa, and parts of Latin America, Europe faces a comparatively cautious Chinese investor community. The heightened geopolitical tension surrounding Ukraine and new Middle East crises, alongside continued EU-U.S. coordination on screening policies, creates a complex environment for large-scale Chinese deals.

Ultimately, while low investment volumes and stringent vetting may dampen the ambitions of some Chinese firms, the substantial greenfield commitments in Hungary and other CEE nations signal that China continues to pursue strategic footholds in Europe's industrial landscape. Ongoing developments—ranging from Europe's internal regulatory reforms to China's evolving economic priorities—will shape the contours of Sino-European investment relations for years to come (Li, 2020; Jones & Hameiri, 2020).

5.1.3. Chinese Investments in Cyprus

The People's Republic of China and the Republic of Cyprus established diplomatic relations in 1971. That same year, Beijing also assumed its seat as a permanent member of the United Nations Security Council, the highest authority overseeing both mediation and peacekeeping efforts on the island. Despite its initial opposition to UN peacekeeping operations, China shifted its stance in 1981 when it voted in favor of extending the mandate of the United Nations Peacekeeping Force in Cyprus (UNFICYP), marking its first affirmative vote for a UN peacekeeping mission.

Figure 6. Chinese contribution of troops to UN peacekeeping operations in Cyprus

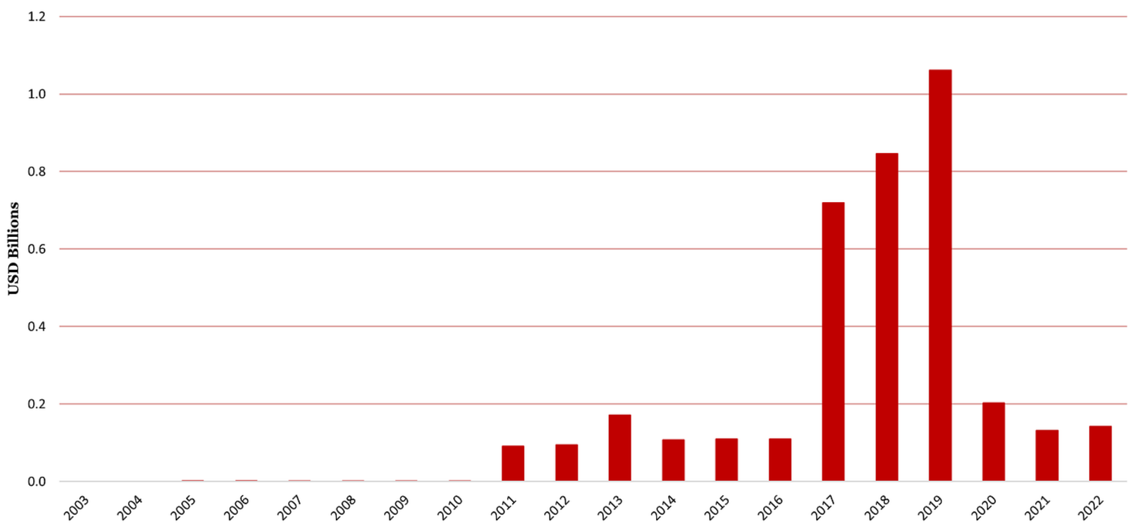


	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
TROOPS	2	2	2	0	0	0	0	0	0	0	0	0	0
POLICE	0	0	0	0	3	6	7	6	4	5	4	5	1

Source: ChinaMed Data

UNFICYP is tasked with maintaining the military status quo on the island and patrolling the UN demilitarized buffer zone, commonly referred to as the "Green Line," which separates the Northern Cyprus from the territory controlled by the Republic of Cyprus. China has contributed both troops and police personnel to UNFICYP, and Major General Liu Chao, a Chinese national, served as the mission's force commander from January 2011 to August 2014. Following Cyprus's accession to the European Union in 2004, Sino-Cypriot relations flourished, particularly in the economic sphere. Trade, tourism, and investments from China grew rapidly as Chinese businesses and individuals were drawn to the island, attracted by its integration into the European single market, strategic location, low corporate tax rate, and programs such as the "Golden Visa" and "Citizenship by Investment" schemes.

Figure 7. Chinese foreign direct investment (stock) in the Republic of Cyprus



Source: ChinaMed Data

Chinese investment in Cyprus has surged since the Cyprus banking crisis of 2013, propelled by the island's strategic crossroads in the Eastern Mediterranean, EU membership, and business-friendly environment (Analysis, 2021; Cyprus Profile, 2024). According to Mordechai Chaziza, Cyprus is poised to become a key node of China's Maritime Silk Road Initiative (MSRI), linking the Indian Ocean to the Mediterranean via the Suez Canal (Chaziza, 2021). Similarly, China Briefing notes that the island offers a transshipment hub connecting three continents—an attribute Beijing deems crucial for expanding its Belt and Road Initiative (BRI) footprint (China Briefing, 2021).

In November 2021, China and Cyprus upgraded bilateral ties to a strategic partnership in honor of their 50th anniversary of diplomatic relations (Chaziza, 2021). During a phone conversation, Chinese leader Xi Jinping and Cypriot President Nicos Anastasiades committed to "firmly support each other's core interests," referencing cooperation in energy and telecommunications and underscoring Cyprus's role in the MSRI (Chaziza, 2021). This dovetails with broad Chinese aims of establishing maritime trade nodes throughout the Eastern Mediterranean, enabling Beijing to access the EU—its largest trading partner—more effectively (Zhang, 2015; Nitta, 2016).

The Maritime Silk Road Initiative (MSRI) is the sea-based component of China's larger Belt and Road Initiative, linking China's ports and shipbuilding industry with trade routes spanning Southeast Asia, the Indian Ocean, the Middle East, and ultimately the Mediterranean (Chaziza, 2021; Khurana, 2016). Cyprus's position as the first European port after ships exit the Suez Canal makes it appealing for Chinese ambitions of establishing logistical corridors between Asia, Africa, and Europe (China Briefing, 2021).

For Chinese investments Cypriot port and shipping potential is real interesting - Cyprus hosts the third-largest merchant fleet in Europe and the 11th-largest globally. In 2020, its merchant fleet had over 1,857 ships and 21 million gross tonnage (Chaziza, 2021; China Briefing, 2021). Over 100 shipping lines serve Cyprus regularly, offering comprehensive transit to Europe, the Levant, and North Africa. Chinese officials emphasize facilities and connectivity, a pillar of the BRI framework, wherein developing ports, logistics hubs, and distribution centers across Cyprus can bolster trade flows to Balkan, Black Sea, and MENA markets (Analysis, 2021; Zender, 2019). Cyprus is also an influential maritime hub: about 20% of the world's third-party managed fleet is run from the island (Chaziza, 2021). This robust shipping and financial services ecosystem further aligns with China's MSRI push, which values large-scale infrastructure and shipping alliances (Analysis, 2021). In additional competitive tax policies, flexible corporate law, and previous "golden passport" programs made Cyprus especially attractive to Chinese investors (Analysis, 2021; Chaziza, 2021). While the citizenship-by-investment scheme ended in 2020 under EU pressure, Cyprus continues to offer cost-effective business operating environments and an educated workforce (China Briefing, 2021; Cyprus Profile, 2024).

Of course, not all Chinese state-backed investments in Cyprus have come through the golden visa program. However, this program has significantly increased the country's attractiveness for foreign investors. In January 2018, Hong Kong billionaire Lawrence Ho announced a €100 million investment in a five-star hotel and residential complex as part of Europe's largest integrated casino resort. In November 2019, the Hong Kong-based China Glory National Investment announced the purchase of the Venus Rock Golf Resort project in Ha Potami for €290 million, as part of a plan to invest €1.5 billion into Cyprus's economy. It is not limited to real estate and the tourism industry. In 2015, Yanggu Xiangguang Copper acquired a 22% stake in the mining company Atalaya Mining Plc for €96.2 million. Additionally, Huawei announced that Cyprus, along with Greece, would lead the rollout of 5G in Europe, with the company investing in telecommunications infrastructure on the island. In November 2019, a multinational consortium led by China Petroleum Pipeline Engineering signed a landmark deal to build a €290 million terminal for the import of liquefied natural gas (LNG) to be used for electricity generation.

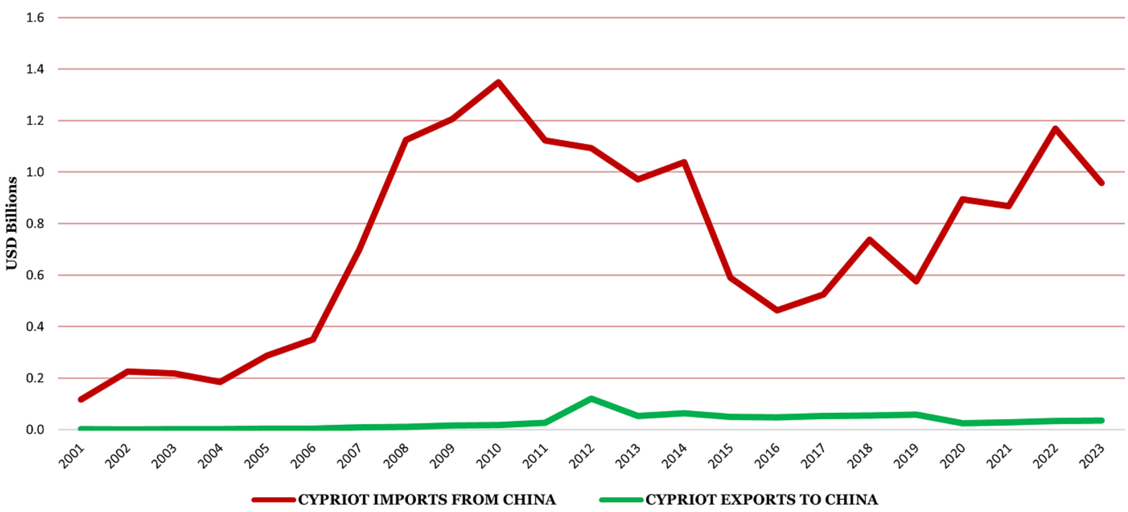
Chinese state-owned enterprises have also submitted several bids to acquire a majority stake in Hermes Airports, which operates Larnaca International Airport, and the Port of Limassol, Cyprus's main port. These moves aim to expand the Belt and Road Initiative (BRI) infrastructure, making the Mediterranean a gateway to Europe for China.

As in other parts of Southern Europe, this significant inflow of Chinese investment followed Cyprus's acceptance in March 2013 of strict terms set by the Troika (European Commission, European Central Bank, and International Monetary Fund) for a €10 billion bailout. In the case of Cyprus, the cost of the bailout, aside from austerity measures, included the closure of the country's second-largest bank and the imposition of an unprecedented levy on bank deposits: 6.75% for deposits under €100,000 and 9.9% for those over €100,000.

On November 30, 2021, Xi Jinping and President Anastasiades announced a strategic partnership, marking a milestone in Sino–Cypriot ties (Chaziza, 2021). Beijing committed to supporting Cyprus's territorial integrity amid the "Cyprus Problem," while Nicosia reaffirmed its endorsement of the "one-China" principle (Analysis, 2021). Emblematic projects include:

- Telecom expansions: Huawei in 5G architecture (Vou, 2021).
- Energy initiatives: Chinese interest in the Vasilikos LNG Terminal (TNH Staff, 2024).
- Infrastructure developments: Potential expansions at Larnaca and Limassol ports (Chaziza, 2021; China Briefing, 2021).

Figure 8. Republic of Cyprus exports to and imports from China



Source: ChinaMed Data

While Cyprus remains EU-aligned and fosters a strong relationship with the U.S.—evidenced by its strategic dialogue initiated in 2023—Nicosia pursues balanced diplomacy to maximize gains from Chinese capital (Zender, 2019; Bruni & Işık, 2024). Scholars like Mordechai Chaziza observe that Cyprus can leverage the MSRI to elevate its maritime significance, yet it avoids a direct China tilt that could alienate the West (Chaziza, 2021; Analysis, 2021).

According to Alexy Zender, the U.S. sees the Eastern Mediterranean as integral to its global naval dominance, ensuring control over critical sea lines of communication for power projection (Zender, 2019). American officials have expressed concern over China's acquisition of port facilities (e.g., Piraeus in Greece, Haifa in Israel) and possible expansions into Cyprus, reflecting fears of a "string of pearls" or maritime chokeholds (Zender, 2019; Khurana, 2016).

In conclusion Chinese investment in Cyprus highlights two intersecting dynamics:

- MSRI Expansion: Cyprus represents a strategic maritime gateway for China's route from the Suez into European waters, aligning with Beijing's "peaceful" approach to dominating key shipping corridors (Chaziza, 2021; China Briefing, 2021).
- Regional Rivalry: The U.S. intensifies alliances with Greece, Israel, and possibly Cyprus to mitigate Chinese port and infrastructure acquisitions, thus framing the Eastern Mediterranean as a crucial domain of Sino–U.S. contest (Zender, 2019).

Despite rhetorical synergy in the "One China–One Cyprus" principle and newly declared strategic partnership, practical Chinese mediation or heavy infrastructure involvement remains constrained by EU regulations, local skepticism, and Sino–Turkish balancing (Analysis, 2021; Nitta, 2016). Cyprus, for its part, leverages China's interest to bolster its shipping sector and energy aspirations, while carefully retaining Western alliances—ultimately navigating a delicate geopolitical environment shaped by U.S.–China competition and ongoing Cyprus Problem complexities (Bruni & Işık, 2024; Chaziza, 2021). But on the other hand Cyprus has seemingly reciprocated China's economic engagement and political support by adopting a relatively "China-friendly" stance within the EU on issues such as Hong Kong, Xinjiang, Taiwan, Huawei, and EV. However, the extent of the Sino-Cypriot partnership should not be overstated. Nicosia's positions on Xinjiang and Taiwan are likely driven more by a desire to avoid setting precedents that could strengthen the claims of the Occupied part of Cyprus than by any explicit alignment with Beijing.

5.2. Sri Lanka in the context of Chinese investments

5.2.1. The Investment Climate in Sri Lanka

Sri Lanka, classified as a lower-middle-income country with a population of approximately 22 million, continues to recover from a severe economic crisis that shook both its financial stability and political landscape in 2022 (U.S. Department of State, 2024). The assumption of office by President Ranil Wickremesinghe in July 2022 marked the beginning of broad financial reforms, including higher taxes, the privatization of loss-making state-owned enterprises (SOEs), and measures to float the currency (Nitta, 2016; Khurana, 2016).

In March 2023, the International Monetary Fund (IMF) approved a four-year Extended Fund Facility (EFF) amounting to USD 3 billion, intended to stabilize the economy, restore macroeconomic fundamentals, and improve fiscal transparency (Nitta, 2016; Salitskii & Semenova, 2016). These measures have yielded early signs of recovery, with real GDP in 3Q 2023 expanding by 1.6% year-on-year. However, annual GDP contracted by 2.3% over 2023, reflecting ongoing structural and socio-economic challenges (U.S. Department of State, 2024). The World Bank highlights persistent poverty, income inequality, and infrastructure deficits as critical bottlenecks (Li, 2020).

Despite some macro-level progress, living standards for many Sri Lankans remain low, characterized by food insecurity, inadequate transport networks, and underfunded education systems (IMF data in U.S. Department of State, 2024). Economic growth is expected to resume in 2024, though at a moderate pace due to reduced purchasing power and looming external debt obligations that will begin maturing in 2025.

Sri Lanka's primary sources of foreign currency are merchandise exports, remittances, and tourism:

- Exports: In 2023, total exports reached USD 14.9 billion, with apparel accounting for USD 4.7 billion out of USD 11.8 billion in goods exports (Zhang, 2015; U.S. Department of State, 2024). However, apparel exports declined by USD 1 billion compared to the previous year, underscoring weak global demand.
- Remittances: Money transfers from overseas workers rose 57.5% in the first five months of 2023 relative to the same period in 2022, providing a critical lifeline for the balance of payments (Tiezzi, 2017; Zhao, 2015a).
- Tourism: The tourism sector earned USD 1 billion between January and July 2023, a notable rebound after pandemic-induced travel restrictions (Wibisono, 2019; Arase, 2016).

With demand for fuel imports anticipated to rise to meet electricity generation needs, the balance of payments remains fragile (U.S. Department of State, 2024). Nonetheless, the IMF's financial support, combined with recovering tourism and remittance inflows, is expected to bolster Sri Lanka's foreign reserve position into 2024, despite external debt repayments coming due in 2025 (Nitta, 2016).

A landmark political transition occurred during the November 2024 parliamentary elections, in which the National People's Party (NPP), led by Anura Kumara Dissanayake, secured a two-thirds majority in Parliament—unprecedented under Sri Lanka's proportional representation system (Zhao, 2016; U.S. Department of State, 2024). The new coalition government pledges further administrative reforms and reaffirms its commitment to IMF-backed fiscal consolidation.

In January 2025, President Dissanayake's state visit to China underscored Sri Lanka's intention to balance relationships with major powers, especially China and India (Jones & Hameiri, 2020; Wibisono, 2019). During this visit, bilateral agreements were signed under the Belt and Road Initiative (BRI) framework, focusing on agriculture, social welfare, and media partnerships (Ganeshan Wignaraja et al., 2020). President Dissanayake also dismissed "debt-trap diplomacy" allegations, emphasizing the necessity of external capital inflows for developing nations (Li, 2020; Khurana, 2016).

Sri Lanka's FDI policy has experienced frequent shifts due to political changes, creating regulatory uncertainty for investors (U.S. Department of State, 2024; Nitta, 2016). Nevertheless, the government aspires to reach USD 5 billion in annual FDI by 2025, necessitating a streamlined policy environment and improvements in competitiveness (Zhao, 2016; Chaturvedy, 2014).

Key policy changes in recent years include:

- Floating Exchange Rate: Transition from a pegged system to a more market-driven rate.
- Import Liberalization: The relaxation of 1,400 import restrictions in December 2023, excluding automobiles (U.S. Department of State, 2024).
- Privatization of SOEs: On the agenda are loss-making state enterprises, though public opposition and political factors may delay these measures (IMF data in U.S. Department of State, 2024).

Despite these efforts, international investors, including Chinese firms, often cite unpredictable policy shifts, complex administrative procedures, and opaque public procurement as critical impediments (Li, 2020; Nitta, 2016). High-profile corruption cases, especially in large infrastructure projects, are frequently dropped due to inter-agency coordination failures and alleged political interference (U.S. Department of State, 2024).

To address these constraints, the government has established 18 export processing zones, managed by the Board of Investment (BOI). Firms operating in and outside these zones can import materials and equipment duty-free, albeit subject to other taxes (Wibisono, 2019; Arase, 2016). Additionally, the Colombo Port City Economic Commission (CPCEC)—an SEZ created in 2021—offers "one-stop" services, including registration, licensing, and permits. China Harbour Engineering Company (CHEC) is the main investor, underscoring Beijing's strong interest in Sri Lanka's maritime and financial sectors (China Merchants Port Holdings, 2017; Nitta, 2016).

The Colombo Port City project aims to transform reclaimed land along Colombo's coastline into a major international hub for finance, trade, and logistics (China Merchants Port Holdings, 2017). The Sri Lankan Parliament enacted special Port City legislation in 2021, granting tax incentives to attract global investors (Wibisono, 2019; Salitskii & Semenova, 2016). Although progress has been slower than anticipated, the Port City remains a centerpiece for Sri Lanka's economic aspirations, with Chinese capital playing a pivotal role.

The Hambantota region hosts a pharmaceutical zone aimed at boosting local drug manufacturing for both domestic needs and export. The government offers tax holidays and basic infrastructure to international companies (U.S. Department of State, 2024). Meanwhile, the Hambantota Port—leased to China Merchants Port Holdings on a 99-year concession—has drawn global attention over concerns about potential militarization and "debt-trap diplomacy" (Jones & Hameiri, 2020; Li, 2020).

Sri Lanka's inbound FDI in 2023 totaled around USD 730 million, lower than comparable peers in the region. The equity component was USD 9.2 million, while USD 292 million flowed into government securities (U.S. Department of State, 2024). Over the past decade, foreign investments have primarily targeted tourism, real estate, and telecommunications (Ganeshan Wignaraja et al., 2020; Tiezzi, 2014).

Challenges include policy volatility, corruption risks, strict labor laws, and infrastructure shortfalls (U.S. Department of State, 2024; Li, 2020). Political instability—exacerbated by changes in leadership and coalition dynamics—further complicates long-term investment planning (Nitta, 2016; Zhao, 2016). Nonetheless, opportunities exist in: infrastructure & Port Development, because with strategic positions along key Indian Ocean shipping lanes, Sri Lanka appeals to logistics and maritime investors (Wibisono, 2019; Chaturvedy, 2014).

In conclusion, Sri Lanka's investment climate remains mixed. The country's robust ambitions—manifested in the USD 5 billion annual FDI target and large-scale infrastructure projects—are tempered by fiscal vulnerabilities, governance deficits, and geopolitical considerations (Ganeshan Wignaraja et al., 2020; Zhang, 2015). The NPP government's pragmatic approach, balancing ties with China, India, and Western partners, could pave the way for a more stable and transparent economic environment (Jones & Hameiri, 2020). For Chinese investors, Sri Lanka occupies a strategic position in the Maritime Silk Road segment of the Belt and Road Initiative (BRI), exemplified by ongoing port and zone developments (Wibisono, 2019; Li, 2020).

5.2.2. Chinese Investment in Sri Lanka

China's infrastructure engagement in Sri Lanka traces back to the 1970s, initially in the form of grant aid, exemplified by the Bandaranaike Memorial International Conference Hall (BMICH), opened in 1973 (Asirwathan, 2018, p. 4; Nitta, 2016). By the early 2000s, China's involvement shifted towards commercial loans with interest-based repayment structures, along with FDI that targeted strategic infrastructure and aligned with emerging Sino–Sri Lankan cooperation frameworks (Wibisono, 2019; Zhang, 2015).

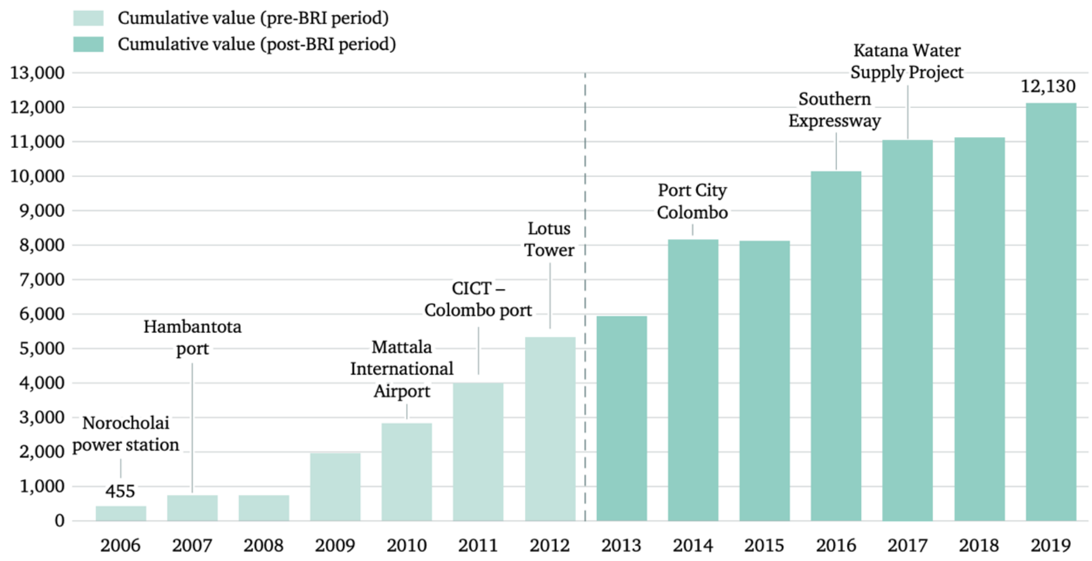
Under President Mahinda Rajapaksa (2005–2015), Chinese financing accelerated across transport, energy, telecommunications, and urban development. Major projects included:

- Norocholai Coal Power Station (2006)
- Hambantota Port (2007)
- Mattala Rajapaksa International Airport (2010)
- Colombo International Container Terminal (CICT) (2011)
- Lotus Tower in Colombo (2012)

These early engagements laid the foundation for expanded cooperation after the formal launch of the Belt and Road Initiative (BRI) in 2013 (Zhao, 2015; Li, 2020). Between 2006 and 2019, total Chinese infrastructure financing in Sri Lanka reached USD 12.1 billion, equivalent to 14% of the country's 2018 GDP (Chatham House data; Central Bank of Sri Lanka, 2020, p. 12). Prior to BRI (2006–2012), USD 5.4 billion was allocated across 15 infrastructure projects. Following the BRI's announcement (2013–2019), an additional USD 6.8 billion funded 13 projects, focusing on ports, roads, power, and urban development (World Bank, 2014; IMF, 2019).

Despite this substantial investment, it covers only about one-third of Sri Lanka's USD 36 billion infrastructure gap—40.5% of 2018 GDP—as estimated by the World Bank (World Bank, 2014, p. 23; Chellaney, 2017). To close the remaining shortfall, the government relies on international capital markets, domestic taxation, and other donors, underscoring a continuing need for diversified financing (Hurley et al., 2018; Zhao, 2016).

Figure 8. Value of Chinese development finance to Sri Lanka ($ million)



Source: Central Bank of Sri Lanka

Key Sectors and Major Projects:

Roads and Highways: Sri Lanka's Road sector has received significant Chinese funding since the end of the civil war in 2009:

- Southern Expressway: A 126-kilometer route connecting Colombo with Galle and Matara. Backed by four EXIM Bank loans totaling USD 1.6 billion between 2014 and 2017, it reduced travel time to 1.5 hours and boosted tourism along Sri Lanka's southern coast (ADB, 2014, p. 16; Road Development Authority, 2020, p. 3).
- Colombo–Katunayake Expressway (CKE): Linking Bandaranaike International Airport to the capital, this project further integrated domestic logistics and trade (Arase, 2016; Li, 2020).

By 2020, China had financed 116.1 km of expressways—about 68% of all major highways in Sri Lanka (Road Development Authority, 2020, p. 3; Nitta, 2016).

Ports: Maritime infrastructure is central to China's Indian Ocean strategy (Wibisono, 2019; Khurana, 2016). Two flagship port projects stand out:

1. Colombo International Container Terminal (CICT)
    - Implemented by China Merchants Port Holdings at a cost of USD 500 million in 2011.
    - The only deep-water terminal in South Asia capable of handling ultra-large container vessels, enabling Colombo to rank 11th globally in container

connectivity in 2018 (Sunday Observer, 2019, p. 2; China Merchants Port Holdings Company Limited, 2017).

- By 2018, 79% of Colombo's throughput was transshipment cargo destined for India (Ministry of Ports and Shipping, 2018).

2. Hambantota Port
   - Financed via EXIM Bank loans of USD 1.4 billion, initiated in 2007 (Reuters, 2018, p. 5; Chaturvedy, 2014).
   - Low commercial utilization led the government to lease the port to China Merchants Port Holdings for 99 years at USD 1.12 billion in 2017—a move aimed at replenishing foreign exchange reserves (Kai Schultz, 2017; Li, 2020).

Critics question the port's financial viability and security implications (Jones & Hameiri, 2020), though official statements refute claims of militarization (Daily FT, 2016; Khurana, 2016).

Power and Energy: Norocholai Coal Power Station is a pivotal Chinese-funded project in Sri Lanka's energy mix. Constructed at USD 1.4 billion through EXIM Bank loans, it now provides about 33% of national electricity output (Ceylon Electricity Board, 2019, p. 18; Nitta, 2016). While improving supply reliability, the plant's environmental footprint has sparked calls for stronger impact assessments and clean-energy alternatives (World Bank, 2014; Zhao, 2015).

Urban and Coastal Development: Colombo Port City, launched in 2014 and funded with USD 1.3 billion by China Harbour Engineering Company (CHEC), reclaims 269 hectares from the sea, aiming to create a new financial and business district (Lakshman Kadirgamar Institute, 2020; Tiezzi, 2017). Upon completion—expected by 2042—it could triple Colombo's commercial real estate space, reinforce its position as a regional financial hub, and symbolize the BRI's shift toward urbanization and service-oriented cooperation (CHEC Port City Colombo, 2019; Zhang, 2015).

Lotus Tower, another high-profile Chinese-backed venture, is intended to bolster telecommunications infrastructure and attract tourism. Critics, however, question its economic returns, labeling it a potential "white elephant" if not integrated with broader development strategies (Asirwathan, 2018; The Sunday Times, 2014, p. 12).

While some commentators emphasize "debt-trap diplomacy" (Chellaney, 2017), empirical studies reveal that Sri Lanka's exposure to Chinese loans, about USD 5 billion by 2018, represents only 15% of total external debt (Central Bank of Sri Lanka, 2018; Li, 2020). Moreover, USD 16.2 billion owed to international financial markets dwarfs the Chinese portion, suggesting the country's broader debt challenges arise from high-cost bond obligations and systemic fiscal deficits rather than exclusively Chinese lending (Hurley et al., 2018; Jones & Hameiri, 2020). Nonetheless, the Hambantota Port lease has fueled concerns over sovereignty and the strategic use of infrastructure assets (Khurana, 2016; Arase, 2016).

The reliance on Chinese capital goods and construction materials has widened Sri Lanka's trade imbalance with China. Between 2006 and 2017, the share of capital goods imports from China climbed from 17% to 27%, while imports of intermediate goods went from 58% to 62% of total imports (Ministry of Finance, 2019, p. 19; Salitskii & Semenova, 2016). Resulting trade deficits rose from -2.6% of GDP in 2006–2012 to -4.3% in 2013–2019 (Central Bank of Sri Lanka, 2018). Observers advocate export diversification, targeted local content policies, and stronger bilateral trade missions to mitigate these imbalances (Hurley et al., 2018; Zhang, 2015).

Despite 12.1 billion USD in Chinese investment from 2006 to 2019, local industries have seen modest technology transfer and job creation. Large Chinese state-owned enterprises (SOEs) dominate construction and operational phases, employing mostly Chinese equipment and specialized labor (Ceylon Electricity Board, 2019, p. 18; CHEC, 2020, p. 9). As a result, manufacturing and service subsectors in Sri Lanka typically fail to integrate deeply into Chinese-led supply chains, limiting multiplier effects (Board of Investment, 2019; Khurana, 2016). For instance, 95% of the capital goods for highway projects came directly from Chinese suppliers, reducing local content below 10% (Road Development Authority, 2020; Zhao, 2016).

Critics highlight the absence of long-term national infrastructure planning, leading to projects with questionable commercial viability—so-called "white elephants" (The Sunday Times, 2014, p. 12; Tiezzi, 2014). The Mattala Rajapaksa International Airport, for instance, operates at minimal capacity, raising doubts about feasibility and return on investment (CHEC, 2020). Such planning gaps underscore the need for a more robust, multi-decade approach that integrates demographic, economic, and environmental considerations (IMF, 2019; Zhao, 2015). Maritime assets like Hambantota Port have sparked debate over potential dual-use objectives, given China's expanding naval footprint in the Indian Ocean (Wibisono, 2019; Khurana, 2016). Sri Lankan officials consistently deny any plans for military usage, yet geopolitical analysts point to submarine visits in 2014 and note that the 99-year lease structure can raise sovereignty concerns among local and regional stakeholders (Tiezzi, 2017; Arase, 2016).

China's growing presence coincides with heightened public diplomacy, which help China project an image of a benevolent partner:

- Cultural Exchanges: Scholarships for Sri Lankan students and the establishment of Confucius Institutes in local universities (Confucius Institute, 2019, p. 2; MOFA, 2015).
- Corporate Social Responsibility (CSR): For example, CHEC Port City Colombo allocated USD 3 million to assist 9,000 fishing families potentially impacted by land reclamation (CHEC Port City Colombo, 2019, p. 5).
- Media Partnerships: Financing local think tanks (e.g., Pathfinder Foundation) and introducing Chinese media outlets (CGTN) to shape narratives on Sino–Sri Lankan cooperation (DailyFT, 2018, p. 8; Zhao, 2015).

Sri Lanka's experience with Chinese investments reveals both developmental gains (expanded port capacity, improved energy security, and enhanced road networks) and challenges (debt sustainability, trade deficits, and limited local absorption). Although allegations of a "debt trap" remain controversial, the broader lesson is that domestic governance—particularly in infrastructure planning, anti-corruption, and debt management—crucially shapes outcomes (Jones & Hameiri, 2020; Zhao, 2016).

By adapting policies to local needs—ensuring technology transfer, empowering local businesses, and enforcing transparency—Sri Lanka can maximize the economic dividends of Chinese FDI while mitigating the potential for geopolitical or financial risks (Hurley et al., 2018; Khurana, 2016). Indeed, balancing international relations with national security interests forms the backbone of Sino–Sri Lankan cooperation under the Belt and Road Initiative—and offers a roadmap for other developing economies seeking infrastructure partnerships with China (Wibisono, 2019; Arase, 2016).

5.3 Comparative analysis of China's approach to Cyprus and Sri Lanka

China's involvement in both Cyprus and Sri Lanka falls under the broad umbrella of the Belt and Road Initiative (BRI), designed to expand commercial corridors and enhance Beijing's influence across Asia, Africa, and Europe. In each case, Chinese investment leverages local vulnerabilities—whether financial crises or infrastructure gaps—to forge economic ties and secure maritime footholds. Yet the nature of these engagements differs due to local politics, conflict dynamics, and regional alignments. Cyprus, an EU member at the crossroads of three continents, hosts strategic Western military bases and sits near the Suez gateway; Sri Lanka, an island in the Indian Ocean, offers direct access to South Asia and shipping lanes from the Malacca Straits to the Middle East. Both stand as prime locations within China's broader Maritime Silk Road Initiative (MSRI), yet Beijing's tactics and regional constraints yield contrasting outcomes.

5.3.1 Motivations and Strategic Significance

Cyprus offers significant shipping and services capabilities, aligned with China's MSRI ambition to connect the Suez Canal corridor to the European Union (Chaziza, 2021; China Briefing, 2021). The island ranks among the largest ship-management centers globally, featuring the third-largest merchant fleet in Europe (Cyprus LNG Project Blueprint, 2021; Cyprus Profile, 2024). Chinese port and telecom expansions could streamline Chinese exports to Europe and the Middle East. Following the Troika bailout in 2013, Cyprus accepted large Chinese investment flows, including the "golden visa" scheme that granted citizenship to influential Chinese nationals (Analysis, 2021).

In **Sri Lanka**, China capitalized on post-civil war reconstruction, offering EXIM Bank loans for large-scale ports (Hambantota, Colombo Port City), highways, and energy facilities (Hurley et al., 2018; Wibisono, 2019). The island's strategic position along Indian Ocean sea lanes linking the Strait of Malacca to the Middle East and Africa heightened its BRI importance (Nitta, 2016). With fewer regulatory checks than an EU state, Sri Lanka welcomed billions in Chinese infrastructure financing; yet concerns arose over rising indebtedness and potential port militarization, especially from India (Jones & Hameiri, 2020). Unlike Cyprus, which must accommodate U.S., British, and EU interests, Sri Lanka's principal external balancing act involves India's strategic anxieties regarding Chinese footholds in South Asia.

5.3.2 Diplomatic Postures and Conflict Management

Cyprus's unresolved "Cyprus Problem" , parallels China's anti-secession stance on Taiwan (Bruni & Işık, 2024; Chaturvedy, 2014). Ambassadors in Nicosia invoke a "One China–One Cyprus" principle, while local officials reciprocate by endorsing China's sovereignty claims. Extradition treaties ratified in 2020—amid the Hong Kong National Security Law—show how Sino–Cypriot ties moved beyond infrastructure into legal frameworks that may facilitate extraditions to mainland China (Analysis, 2021). Despite Western scrutiny, Nicosia's subdued response underscores how Chinese FDI, real estate deals, and potential port expansions buy Cypriot loyalty in EU forums. China, for its part, remains cautious about alienating Türkiye, limiting direct conflict mediation on the island.

Sri Lanka sees Beijing primarily as a postwar development financier (Wibisono, 2019). Chinese policy banks funneled billions for ports and expressways, yet Beijing abstains from ethnic or internal conflict resolutions, focusing on ensuring loan repayment and port operational control (Hurley et al., 2018). With no direct Sino–Sri Lankan extradition controversies, the human rights dimension focuses on local dissatisfaction with debt obligations and the potential for China to manage strategic harbor facilities. India, wary of encirclement, contests the depth of China's Indian Ocean foothold more vigorously than the EU does in Cyprus (Jones & Hameiri, 2020).

5.3.3 Regulatory and Financial Factors

Under the EU umbrella, **Cyprus** should theoretically abide by FDI screening rules. However, it has not fully enacted them (Linklaters Blog, 2024). The 2013 bailout forced austerity and deposit "haircuts," prompting the government to welcome foreign money, including from Chinese state-owned enterprises (Analysis, 2021). Real estate deals for "golden visas" and subsequent expansions into telecom (Huawei 5G rollout), energy (China Petroleum Pipeline Engineering at Vasilikos), and potential port stake acquisitions highlight a measured but impactful Chinese presence (Chaziza, 2021; China Briefing, 2021).

Sri Lanka lacks the EU's screening apparatus, so Chinese loans for Hambantota Port, Colombo Port City, and related ventures met fewer immediate barriers (Hurley et al., 2018; Nitta, 2016). Exacerbated by weak debt governance, these projects contributed to a spiraling liability that forced the 99-year lease of Hambantota, widely cited as a case of "debt-trap diplomacy" (though debate persists) (Jones & Hameiri, 2020). While Cyprus deals remain comparatively moderate (below USD 1 billion), Sri Lanka's engagement is far more capital-intensive, culminating in direct operational control over major maritime assets—unencumbered by EU oversight. The local outcry emerged post facto, once debt burdens and strategic implications became apparent.

5.3.4 Great Power Rivalry

Cyprus is entangled in U.S. and NATO strategic interests (Zender, 2019). Washington sees Chinese port or airport acquisitions as undercutting Western influence. British sovereign bases, plus U.S. interest in local security deals, create a competitive setting for Chinese expansions (Chaturvedy, 2014). The overshadowing Greek–Turkish friction and the region's link to Middle East stability shape Sino–Cypriot relations in ways that differ from an Indo-Pacific or Indian Ocean context (Bruni & Işık, 2024).

In **Sri Lanka**, the relevant strategic rival is India, which fears encirclement by Chinese-run ports (Wibisono, 2019; Khurana, 2016). Sino–Indian rivalry manifests more overtly than Sino–U.S. friction in Cyprus, as India historically considered Sri Lanka part of its security sphere (Hurley et al., 2018). This dynamic stands in contrast to the limited Sino–Turkish tension over Cyprus, since Turkey, while significant, does not overshadow the Western presence in the Eastern Mediterranean as India does in the Indian Ocean (Jones & Hameiri, 2020). China, in securing maritime assets in Sri Lanka, faces heightened scrutiny from New Delhi, underscoring a more pronounced competition than that in Cyprus.

Although China pursues a consistent BRI logic—securing maritime routes, port facilities, and influence—its approaches to Cyprus and Sri Lanka differ in scale, conflict context, and regulatory environment. Cyprus's EU status and entanglement in the Cyprus Problem yield a more limited, diplomatically cautious Chinese footprint, heavily couched in rhetorical support for Nicosia's sovereignty. The local regulatory checks, Western bases, and potential friction with Türkiye all confine Beijing's commercial expansions to smaller-scale telecommunications, shipping services, and partial infrastructure deals.

In contrast, Sri Lanka offered China broad scope for high-value, capital-intensive port and expressway projects, spurred by minimal external constraints and post-war reconstruction demands. Beijing capitalized swiftly, leading to tangible strategic assets like Hambantota Port—controversial for its financial structure but emblematic of deeper BRI involvement.

Only after external scrutiny from India, global debt alarm, and local governance crises did the scale of Chinese investment come under question.

Ultimately, the “One China–One Cyprus” principle in the Eastern Mediterranean parallels China’s unwavering anti-separatist stance, but it does not escalate China to a direct mediator role, especially given Turkey’s significance and Western presence. By contrast, in Sri Lanka, the focus remains on large port management, debt financing, and potential strategic usage—broadening Chinese maritime access in the Indian Ocean. Both cases exemplify how local political contexts, conflict tensions, and rivalry with third parties (whether Western or regional powers like India) shape Beijing’s on-the-ground approach. While the BRI rhetorical framework unites them, Cyprus and Sri Lanka showcase how China tailors its engagement—cautious and symbolic in the Eastern Mediterranean, expansive and loan-heavy in South Asia—illustrating the adaptability and limits of China’s maritime ambitions.

Conclusion

This dissertation conducted a critical evaluation of the strategic and security implications of Chinese investments in Cyprus and Sri Lanka within the framework of the Belt and Road Initiative (BRI). The research aimed to identify China's key motivations and analyze the impact of these investments on the national security and foreign policy of the countries under consideration. As a result, the stated objectives were achieved, and answers were provided to the main research questions:

- Key Drivers of Chinese Investments in Cyprus and Sri Lanka lie in the strategic geographical locations of these countries, making them important nodes for the expansion of China's trade routes, as well as the economic opportunities provided by investments in infrastructure, energy, and telecommunications.
- Impact of Chinese Investments on National Security in Cyprus and Sri Lanka is manifested through increased economic dependence, which can lead to political influence from China. However, the degree of this influence differs between the two countries.
- China's Strategic Objectives include expanding geopolitical influence, ensuring the stability of trade routes, and securing access to critical resources.
- Security Risks and Benefits from Chinese investments include economic growth and infrastructure development, but also risks associated with potential loss of economic and political independence.
- International Relations Theories explain the impact of Chinese investments through the lenses of neorealism and dependency theory, highlighting how China's economic tools serve to achieve geopolitical goals.
- Political Measures to balance economic benefits and security interests include strengthening regulatory mechanisms, increasing investment transparency, and diversifying sources of financing.

What is the significant difference between the studied cases?

The situation in Cyprus differs significantly from Sri Lanka due to several key factors:

- Membership in the European Union provides Cyprus access to strict regulatory mechanisms and EU investment schemes, reducing the risk of excessive economic dependence on China. This allows Cyprus to control and assess potential risks from foreign investments more effectively.

- Developed Legal System and Regulatory Infrastructure contribute to transparency and the protection of national interests, preventing political influence through economic means.
- Absence of the Phenomenon of "Bandwagoning" in Cyprus, unlike Sri Lanka, indicates a more balanced approach to attracting foreign investments. Cyprus actively supports its traditional Western alliances with the EU and the USA, allowing it to avoid excessive subjugation to one side.

While Cyprus successfully balances attracting Chinese investments and maintaining sovereignty, Sri Lanka's situation shows that significant Chinese investments, such as the Hambantota Port, can lead to political dependence and economic difficulties. In the cases of Laos and Cambodia, the level of economic dependence on China is even higher, resulting in significant risks to national sovereignty and political autonomy. These countries face problems of high debt burdens and increasing Chinese influence on domestic politics, making them more vulnerable compared to Cyprus.

Conclusions and Recommendations

The study demonstrated that Cyprus provides a more successful example of managing Chinese investments due to its EU membership, developed regulatory system, and balanced foreign policy. In contrast, Sri Lanka, Laos, and Cambodia encounter more severe challenges related to economic dependence and political influence from China.

For countries seeking to attract foreign investments without losing sovereignty, it is important to:

- Strengthen Regulatory Mechanisms and increase the transparency of investment projects.
- Diversify Sources of Financing to avoid excessive dependence on a single foreign partner.
- Develop Internal Economic and Institutional Capabilities to effectively integrate foreign investments into the national economy.

- Maintain Balanced External Relations with various global and regional players to minimize the risks of political dependence.

Thus, Cyprus's experience demonstrates that with proper management and strategic planning, it is possible to attract foreign investments that ensure economic growth while minimizing risks to national security and sovereignty. This balance allows Cyprus to avoid the negative consequences observed in other countries and serves as an example for other states seeking sustainable development in the context of global economic competition.

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