SRI LANKA'S CRITICAL MINERALS: NAVIGATING A CONTESTED GEOPOLITICAL LANDSCAPE

Sri Lanka's Critical Minerals: Policy Brief 1



Hasarel Gallage

factum

SRI LANKA'S CRITICAL MINERALS: NAVIGATING A CONTESTED GEOPOLITICAL LANDSCAPE

Sri Lanka's Critical Minerals: Policy Brief 1

By Hasarel Gallage



SRI LANKA'S CRITICAL MINERALS: NAVIGATING A CONTESTED GEOPOLITICAL LANDSCAPE Sri Lanka's Critical Minerals: Policy Brief 1

Research by: Hasarel Gallage
Design: Factum

Factum
29/A, Marine Drive,
Colombo 03,
Sri Lanka.

Phone: +94 77 040 99 61
Email: info@factum.lk
Web: www.factum.lk

Facebook: facebook.com/Factum.lk
Instagram: instagram.com/factum.sl
Twitter: x.com/factumlk
LinkedIn: linkedin.com/company/factumlk



ISBN 978-624-6464-04-2



Introduction

In June 2026, Sri Lanka launched its new National Mineral Policy which was branded as the country's first attempt in 27 years to streamline its mineral industry, since the last policy of 1999. The new policy is expected to develop the domestic mineral industry to yield deeper economic gains by integrating the country's mineral sector with the growing global race for critical minerals. While this offers an enticing vision for a country that is recovering from an economic crisis, the reality and feasibility of reaching that vision could be much more nuanced. Sri Lanka's mineral industry currently remains small-scaled, limited to a few products like premium vein graphite and mineral sands. A combination of factors from the lack of the capital and gaps in technological expertise to resistance from communities and activists on its environmental and social impact, have kept Sri Lanka's mineral prospects from growing into a large-scale lucrative industry. The new mineral policy expects to address most of these bottlenecks and make the country's mineral endowment available for foreign investments. But such foreign investments would inevitably raise geopolitical contestations given the rivalries that are already shaping the global mineral scramble.

Given Sri Lanka's identity as a small state and its strategic foreign policy approach of hedging, the question whether the country can translate its mineral endowment into geopolitical leverage, or whether it risks becoming a new battleground of geopolitical tension, is one worth probing.

The Global Critical Minerals Race

The global scramble for critical minerals has moved from the margins of trade policy to the centre of great power competition. Critical minerals broadly refer to a group of minerals that are vital for strategic technological and defence applications from electric vehicles (EV), clean energy and fighter jets. Three factors drive their criticality: their indispensability for strategic applications, their difficulty and high cost in extraction and processing, and the vulnerability of their supply chain to geopolitical disruptions.

The International Energy Agency (IEA) predicts the demand for critical minerals to double by 2040 primarily driven by the surging demand for clean energy.[1] The World Bank projects an even steeper growth of demand for lithium and cobalt, two key minerals for EV battery chemistries, which will grow by 500% by 2050.[2] Yet the deeper concern shadowing the critical mineral industry is not whether the supply can meet this growing demand, but rather who controls it. China currently dominates the industry accounting for 70% of global mining share, 72% of mineral processing, 85% of rare earth processing and 94% of permanent magnet manufacturing.[3]

Its strongest chokehold is on mineral processing, the most capital and technology intensive segment of the critical mineral value chain. This dominance has not only left the Western industrial states in an asymmetric dependence on China, prompting them to seek alternative suppliers, but also deepened an already contentious geopolitical tension between China and the West.

1 International Energy Agency, Global Critical Minerals Outlook 2026 (Paris: IEA, 2026), https://www.iea.org/reports/global-critical-minerals-outlook-2026.

2 Sophia Kalantzakos, "The Race for Critical Minerals in an Era of Geopolitical Realignments," The International Spectator 55, no.3 (2020): 1-16, https://doi.org/10.1080/03932729.2020.1786926.

3 International Energy Agency, Global Critical Minerals Outlook 2026 (Paris: IEA, 2026), https://www.iea.org/reports/global-critical-minerals-outlook-2026; U.S. Geological Survey, Mineral Commodity Summaries 2026 (Reston, VA: USGS, February 2026), https://doi.org/10.3133/mcs2026.

Positioning Sri Lanka in the global critical mineral race

Sri Lanka remains a marginal player in the global critical mineral rush with mineral resources of limited commercial viability in comparison to some other global south counterparts. However, Sri Lanka has a growing mineral industry that is drawing attention from both the state and foreign investors. The newly launched national mineral policy, which signals this fresh interest, has been framed as a roadmap to steer not only the country's domestic mineral industry but also the overlapping geo political and geoeconomic interests.

Its strategic location in the Indian Ocean along with the competing interests of the regional powers India and China places Sri Lanka in a delicate geopolitical position. While Sri Lanka maintains a strategic hedging approach in foreign policy, the tensions among great powers are often manifested in matters concerning Sri Lanka. For example, India and US have expressed their concerns on increasing Chinese projects in Sri Lanka as well as Chinese maritime reconnaissance in the Indian Ocean. In 2023, Sri Lanka permitting a Chinese research vessel to dock in Colombo port faced strong opposition by India and the US, subsequently making Sri Lanka impose a one year moratorium that banned foreign research vessels entering its territorial waters. Sri Lanka's plans to develop its mineral industry and connect it with the global supply chain is likely to meet similar geopolitical anxieties.

This ambition also plays out against a specific domestic political backdrop. The incumbent government led by the National People's Power (NPP) coalition has not only been historically left leaning, but has also opposed the interventions by regional powers, notably by India, on Sri Lanka's domestic politics. However, since coming into power, the government has adopted a rather pragmatic approach. Specifically with regard to the mineral industry, the government has been welcoming of the idea to open the country's mineralresources to foreign investors. On August 31, 2026, the President personally chaired a meeting with mineral investors and local institutions like the Geological Survey and Mines Bureau (GSMB) pushing them to speed up the mineral exploration and mining licences to attract foreign capital.[4] This pragmatic policy shift suggests that, in addition to the geopolitical factors discussed below, Sri Lanka's own political will and institutional capacity will determine to what extent Sri Lanka's mineral ambitions will be realised.

The sections that follow turn to the potential interests of India, China and the Western industrial states in the country's mineral resources, as well as mineral prospects in the deep-sea, before assessing what this means for Sri Lanka's strategic room to navigate mineral geopolitics.

India: Interests and points of friction

India and Sri Lanka's economic relationship has a mixed history of aspirations and inaction. For instance, although bilateral discussions to expand the 1998 India-Sri Lanka Free Trade Agreement (ISFTA) into Comprehensive Economic Partnership Agreement (CEPA) began as early as 2003, its progress was stalled due to opposition from Sri Lanka's professional and business groups due to the potential impact on the domestic services sector.[5]

4 President's Media Division, "President Chairs Discussion on Developing Sri Lanka's Mineral Industry under National Mineral Policy 2026." Press Release 31 August 2026. https://www.pmdgovlk/news/president-chairs-discussion-on-developing-sri-lankas-mineral-industry-under-national-mineral-policy-2026&p=0

5 Ministry of External Affairs, India, "Comprehensive Economic Partnership Agreement between India and Sri Lanka." Press Release 21 October 2003. https://www.mea.gov.in/press-releases?dtl/7847/Comprehensive_Economic_Partnership_Agreement_between_India_and_Sri_Lanka; Dilshani Samaraweera, "Local businesses unhappy with CEPA". The Sunday Times, 20 July 2008, https://www.sundaytimes.lk/080720/FinancialTimes/ft300.html.

Efforts to revive the proposal in 2015 with the rebranded identity of Economic and Technology Cooperation Agreement (ETCA), also met with opposition leaving the proposal unconcluded today, over two decades later.[6]

Similarly, in 2021 India's Adani Group proposed to develop a 1 billion USD wind power project in Sri Lanka's Mannar region.[7] The project initially received a green light from the previous Sri Lankan government including a 20 year power purchase agreement. However, the current government revoked the power purchase agreement in January 2025 amidst tariff disputes and sustained opposition by environmentalists, eventually leading to the Adani Group formally withdrawing in February 2025.[9] A more promising opportunity lies with the proposed grid interconnection between India and Sri Lanka for which the Memorandum of Understanding was signed in April 2025.[10]

Despite a speckled history of domestic opposition for Indian intervention in Sri Lanka's economy, the Spring 2026 Global Attitudes Survey by the PEW Research Centre recorded that the overall impression of Sri Lankans about India has significantly improved with over 79% of Sri Lankans having a favourable view of India.[11]

Sri Lanka, which recorded a 14 point increase from its 2024 result, was also the only South Asian country to have an overall positive view of India. India's support during Sri Lanka's recent economic crisis including credit lines for fuel and other essential items likely played a significant role in improving India's image among the Sri Lankan public.

It is against this political economic backdrop that potential mineral partnerships between India and Sri Lanka should be viewed and understood. India's critical mineral motivations are primarily driven by its clean energy goals. India has committed to achieve 50% of electricity capacity from non-fossil fuel by 2030 and to reach net-zero carbon emission by 2070.[12]

India also has a booming EV demand with one in every 10 vehicles that are sold being electric.[13] The World Resources Institute has projected that India's domestic clean-energy sector will see its demand for seven core minerals that include aluminium, copper, and manganese double or triple by 2030.[14] But India is currently 100% reliant on foreign imports for its lithium, cobalt and nickel demand while 75% of EV lithium-ion batteries are imported from China.[15]

This underscores India's limited capacities in downstream value addition and thereby its asymmetric dependence on China. Similarly, despite being ranked the 5th globally for rare earth production in 2026, it accounted for less than 1% of the total global production.[16]

6 T. Ramakrishnan, "Indian envoy takes on Sri Lankan opposition over economy impact", The Hindu, 17 November 2021, https://www.thehindu.com/news/international/indian-envoy-takes-on-sri-lankan-opposition-over-economy-impact/article37683683.ece; "Harsha urges Govt. to break ETCA deadlock", 24 June 2026, https://www.ft.lk/front-page/Harsha-urges-Govt--to-break-ETCA-deadlock/44-793697.

7 Uwin Lugoda, "Renewable energy generation: Adani to take billion-dollar Mannar project", The Morning, 5 December 2021, https://www.themorning.lk/articles/177599

8 Uditha Jayasinghe, Sudipto Ganguly, Sohini Goswami, "Sri Lanka inks 20-year power purchase deal with India's Adani Green" Reuters, 7 May 2024, https://www.reuters.com/world/asia-pacific/sri-lanka-inks-20-year-power-purchase-deal-with-indias-adani-green-2024-05-07/.

9 Uditha Jayasinghe, "India's Adani to pull out of Sri Lanka wind power projects", Reuters, 13 February 2025, https://www.reuters.com/business/energy/indias-adani-pull-out-sri-lanka-wind-power-projects-2025-02-13/

10 Ministry of External Affairs India, "List of Outcomes: Visit of Prime Minister to Sri Lanka (April 04-06, 2025)", Press Release, 4 April 2025, https://www.mea.gov.in/Press-Releases.htm?dtl/39577

11 Jacob Poushter, Sneha Gubbala, William Miner, "How do South Asians view other countries in the region?," Pew Research Center, 13 August 2026, https://www.pewresearch.org/global/2026/08/13/how-do-south-asians

12 Press Information Bureau, Government of India, "India Reaches 50% Non-Fossil Fuel Power Capacity, Five Years Ahead of Target," Ministry of New and Renewable Energy, accessed August 2026, https://www.pib.gov.in/PressReleasePage.aspx?PRID=2120525&reg=2&lang=2.

13 Nikhil Inamdar, "Costly fuel pushes more Indians to buy electric cars but challenges remain," BBC, 4 June 2026, https://www.bbc.co.uk/news/articles/c2181y4r4m.

14 Niharika Tagotra et al., Critical Minerals for India's Clean Energy Transition, WRI Working Paper (Washington, DC: World Resources Institute, July 22, 2024), https://doi.org/10.46830/wriwp.23.00063.

15 Charith Konda and Dhruv Garg, "Securing India's Battery Supply Chain Is More Critical Than Ever," Institute for Energy Economics and Financial Analysis, May 29, 2026, https://ieefa.org/resources/securing-indias-battery-supply-chain-more-critical-ever.

16 U.S. Geological Survey, Mineral Commodity Summaries 2026 (Reston, VA: USGS, February 2026), https://doi.org/10.3133/mcs2026.

India's reliance on foreign suppliers for critical minerals has exposed India's automotive and electronics industries as well as its clean energy ambitions to potential supply disruptions, price fluctuations, and export bans.

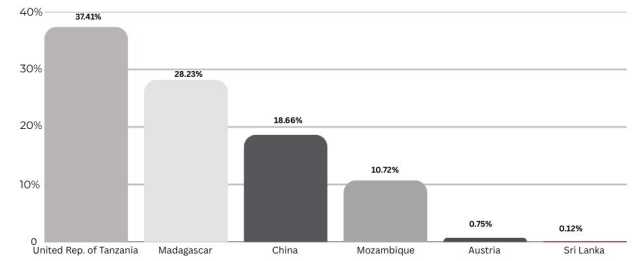
This has pushed India to pursue foreign partnerships to secure access to mineral resources in addition to ramping up domestic mineral capacities. India's National critical Mineral Mission for example aims to acquire 50 foreign mineral assets by 2031.[17]

However, this mostly includes high priority minerals like cobalt, copper and lithium in Africa, Latin America and Australia. Some notable examples include a lithium mine in Argentina and a cobalt and copper mine in Zambia, although the latter's progress has stalled due to an issue over mining rights.[18]

India's interest in Sri Lanka lies mostly in vein graphite and mineral sands. But given the limited scale of mineral production, Sri Lanka is still not a significant supplier to meet India's mineral demand. For example, in 2025, India imported an estimated 53,900 tonnes of graphite (HS 250410-Graphite; natural, in powder or flakes).[19]

The top three suppliers were Tanzania (37%), Madagascar (28%), and China (19%). In comparison, Sri Lanka only accounted for 0.1% of India's graphite imports.[20] Even in terms of Sri Lanka's total graphite exports in 2025, India didn't make it to the top five destinations despite geographical proximity and a bilateral Free Trade Agreement between India and Sri Lanka. While the top buyer was Japan accounting for 44% of total exports in terms of volume, India's share stood at 3%.[21]

Figure 1. India's graphite imports in 2025 (HS 250410)



Source: Created by author using UN Comtrade Database

Apart from the scale of production, the form of graphite also plays a role. Most graphite imported by India are flake graphite which occur in large, surface- level deposits found elsewhere in the world which are easier and cheaper to extract. In contrast, despite their exceptional purity due to high carbon content exceeding 95%, vein graphite produced in Sri Lanka is manually extracted from deep underground mines making its extraction not only dangerous, but which requires specialised, capital and labour intensive process. Sri Lankan vein graphite as a result is mined at a smaller scale and exported as a premium product that is significantly more expensive than flake graphite. [22]

But the prospects are not entirely bleak for Sri Lanka. Although it has not yet contributed to significant trade volume, under the India Sri Lanka Free Trade Agreement (ISFTA) Sri Lankan graphite exports qualify for preferential tariff concessions. Further, in February 2025, the Union Minister of State for Coal and Mines of India met his Sri Lankan counterpart, the Minister of Industry and Entrepreneurship Development, Sri Lanka for discussion about fostering cooperation between the two states in mineral exploration and mining, especially

17 Press Information Bureau, Government of India, "India and Sri Lanka Strengthen Ties in Critical Minerals, Exploration, and Mining," Ministry of Mines, February 17, 2025, https://www.pib.gov.in/PressReleasePage.aspx?PRID=2035628; International Energy Agency, "National Critical Mineral Mission," IEA Policies Database, last updated April 13, 2026, https://www.iea.org/policies/25735-national-critical-mineral-mission.

18 Neha Arora, "India-Zambia talks on critical minerals stall over mining rights, sources say," Reuters, 16 April 2026, https://www.reuters.com/world/india/india-zambia-talks-critical-minerals-stall-over-mining-rights-sources-say-2026-04-16/.

19 Natural graphite trade data in this brief is drawn from HS code 250410 (Natural graphite, in powder or flakes), which captures the overwhelming majority of Sri Lanka's graphite exports. A separate, much smaller code, HS 250490 (Graphite; natural, in other forms, excluding powder or flakes), accounted for just 24.4 tonnes of Sri Lankan exports globally in 2025 and does not materially affect the figures presented here.

20 UN Comtrade Database, "Trade Flow: Natural Graphite Imports, India, 2025," United Nations Statistics Division, accessed August 2026, https://comtradeplus.un.org/TradeFlow

21 UN Comtrade Database, "Trade Flow: Natural Graphite Exports, Sri Lanka, 2025," United Nations Statistics Division, accessed August 2026, https://comtradeplus.un.org/TradeFlow.

22 Sri Lanka's prospects in vein graphite trade and challenges will be discussed in further detail in the second report of this series, focused on mineral trade and value addition.

focusing on Sri Lanka's vein graphite and mineral sands. As a result, a Memorandum of Understanding (MoU) "Cooperation in the Field of Geology and Mineral Resources" between India's Ministry of Mines and Sri Lanka's Geological Survey & Mines Bureau is currently being finalised. The Geological Survey of India (GSI) has also expressed its interest in conducting mineral assessments in Sri Lanka.[23]

Sri Lanka in turn has requested India to encourage Indian companies to invest in its mineral sand and graphite resources. In 2024, there were reports of interests by India's Adani Group in mineral exploration in Sri Lanka, however there has not been any conclusive proof of the matter. A more promising prospect lies with the Khanji Bidesh India Limited (commonly referred to as KABIL) which is involved in early negotiations with Sri Lanka regarding an investment on vein graphite industry.[24] KABIL is an Indian state-owned enterprise (SOE) formed as a joint venture among National Aluminium Company Ltd (Nalco), Hindustan Copper Ltd (HCL) and Mineral Exploration and Consultancy Ltd (MECL). Established to scout for foreign strategic mineral assets, KABIL acquired mineral exploration rights for a lithium mine in Argentina in 2024, highlighting where India's mineral priorities lie.[25]

Mineral prospects in the deep sea

Beyond onshore graphite and mineral sands, India and Sri Lanka's mineral relationship extends offshore as well, to the disputed Afanasy Nikitin Seamount (ANS). The ANS is an undersea mountain ridge, located roughly 1,050 km from Sri Lanka's southeastern coast, containing cobalt, nickel, and manganese deposits. In 2009, Sri Lanka made a request to the UN Commission on the Limits of the Continental Shelf (CLCS) to extend its maritime boundary which if approved would officially include the ANS within Sri Lanka's maritime jurisdiction.[26] Although India didn't express any formal objection initially, its stance changed in 2022.[27] Driven by its own green energy commitments and alarm over increasing Chinese maritime reconnaissance in the Indian Ocean, India filed a formal protest disputing Sri Lanka's submission at UN CLCS showing how broader regional geopolitics could come into conflict even with bilateral relations.[28]

However, because the CLCS rules prevent the commission from evaluating a claim under active dispute, Sri Lanka's application remains suspended. India's 2024 application to the International Seabed Authority (ISA) for an exploration licence for the ANS is similarly suspended, as the legal status of the ANS, whether it belongs to the jurisdiction of Sri Lanka or the ISA, remains unresolved.[29]

The result is a legal stalemate that neither state has yet been able to effectively resolve.[30] Although under the provisions of the UN Convention on the Law of the Sea (UNCLOS) Sri Lanka could challenge India's competing claim at a maritime tribunal, its ruling would be legally non-binding.

23 Press Information Bureau, Government of India, "India and Sri Lanka Strengthen Ties in Critical Minerals, Exploration, and Mining," Ministry of Mines, February 17, 2025, https://www.pib.gov.in/PressReleasePage.aspx?PRID=2103502&reg=48&lang=2.

24 Aggam Walia, "Indian companies eye critical minerals mining in Sri Lanka, Australia as Mines Ministry expands search beyond South America," The Indian Express, 4 March 2025, https://indianexpress.com/article/business/indian-companies-eye-sri-lanka-australia-as-mines-ministry-expands-search-beyond-south-america-9194042/.

25 Khanij Bidesh India Limited (KABIL), "KABIL Started Exploration Activities in Its Lithium Blocks in Argentina," accessed August 2026, https://kabilindia.in/.

26 Sri Lanka, "Executive Summary," Submission to the Commission on the Limits of the Continental Shelf, 2009, https://www.un.org/depts/los/clcs_new/submissions_files/lka43_09/20090930_Exec_Summary.pdf.

27 India, Note Verbale to the Commission on the Limits of the Continental Shelf Regarding Sri Lanka's Submission, 2009, https://www.un.org/depts/los/clcs_new/submissions_files/lka43_09/20094512_IND_NV_UN_001.pdf.

28 India, Note Verbale to the Commission on the Limits of the Continental Shelf, October 25, 2022, https://www.un.org/depts/los/clcs_new/submissions_files/lka43_09/20221025IndNvUn002.pdf; Matthew P. Funaiole, Brian Hart, and Aidan Powers-Riggs, "Surveying the Seas: China's Dual-Use Research Operations in the Indian Ocean," CSIS Hidden Reach, January 10, 2024, https://features.csis.org/hiddenreach/china-indian-ocean-research-vessels/.

29 International Seabed Authority, "The Government of India Submits Two Applications for Approval of Plans of Work for Seabed Exploration in the Indian Ocean," press release, January 18, 2024, https://isa.org.jm/news/the-government-of-india-submits-two-applications-for-approval-of-plans-of-work-for-seabed-exploration-in-the-indian-ocean/.

30 Hasarel Gallage and Umesh Moramudali, "India and Sri Lanka's Deep-Sea Mining Deadlock," The Diplomat, July 10, 2026, https://thediplomat.com/2026/07/india-and-sri-lankas-deep-sea-mining-deadlock/.

This leaves India and Sri Lanka with amicable negotiation and dispute resolution as the only option. If the two states decide to negotiate, Sri Lanka would have some leverage as without its cooperation, India's ISA application cannot proceed. Sri Lanka could potentially exploit that leverage to request capital and technology transfer from India to develop its domestic mining capabilities. But it could also give rise to geopolitical contentions with China given its deeper presence in Sri Lanka, as well as its rising demand for cobalt.

The ANS dispute offers an apt case study on how critical minerals could intersect with wider geopolitics where Sri Lanka's minerals might become a battleground for regional geopolitical rivalries, rather than a source of much needed export revenue for Sri Lanka.

China: Existing footprint and potential interests

China's interests and investments in Sri Lanka's mineral sector differ fundamentally from India's strategy. While India's role is defined by its resource acquisition appetite, China's approach is defined by an intention to preserve its market dominance and processing power. Because it already possesses many commercially viable mineral assets overseas, China is unlikely to scout for mineral resources in Sri Lanka which are comparatively less lucrative. Possessing its own abundant mineral resources, including all 17 rare earth elements, China's position in the critical mineral supply chain is hardly vulnerable to disruptions. China is not just a global mineral supplier, but also the world's largest critical mineral consumer, especially for the key battery minerals lithium, copper, cobalt and nickel.[31] Two factors sustain this demand. The first is China's extensive industrial ecosystem, including a booming EV sector serving both domestic and global consumers, that fuels demand for battery minerals. The second is its processing industry. Despite being a major producer, China's domestic mining output is not sufficient to feed its refining capacity, forcing it to import substantial volumes of unprocessed minerals to keep its facilities running.[32]

Sri Lanka's mineral exports to China are currently concentrated in heavy mineral sands and industrial minerals rather than the raw vein graphite sought by the West. Despite graphite being pivotal for battery chemistries, China has its own domestic graphite production and therefore imports less graphite. Even in terms of Sri Lankan graphite exports, China is not a top destination. In 2024, among the countries Sri Lanka exported graphite (HS 250410), China was ranked 7th just below India, preceded by Western industrial states led by Japan, US and Germany securing the top three spots.[33] China accounted for just 1.8% of Sri Lanka's total graphite exports, underscoring the limited trade interdependence between the two countries. Where graphite imports remained marginal, mineral sands tell a different story. In 2024, China imported a combined total of approximately 1300 tonnes of titanium ore and concentrates (from ilmenite and rutile), natural quartz and quartz sands from Sri Lanka.

While in terms of trade volume the mineral sands imports are greater than that of graphite, when compared with the total Chinese imports for the same category, Sri Lanka's share remains marginal. Notably, although Sri Lanka's share stood at 0.16% out of total Chinese graphite imports, the share for titanium ore and concentrates (HS 261400 an output of ilmenite and

31 Global Witness, "In Numbers: Critical Mineral Production, Ownership, and Social Unrest," accessed August 2026, https://globalwitness.org/en/campaigns/transition-minerals/in-numbers-critical-mineral-production-ownership-and-social-unrest/.

32 Didi Bostock, "Rise of African Rare Earths Bolsters Supply Pipeline for China and the West," Benchmark Mineral Intelligence, June 24, 2024, https://source.benchmarkminerals.com/article/rise-of-african-rare-earths-bolsters-supply-pipeline-for-china-and-the-west.

33 UN Comtrade data for China's 2025 graphite imports (HS 250410) was not yet available at the time of writing. Hence 2024 figures have been used.

rutile bearing heavy mineral sands) was even lower, at 0.01% ***(See Table - 01).***

But China claimed 24.5% of Sri Lankan titanium ore and concentrates exports, ranking second after India which claimed 54.6% of exports of Sri Lanka of the same category.[34] This limited trade interdependence suggests China may have less immediate incentive to restrict Western access to Sri Lanka's mineral resources. However, China's broader infrastructural network and mineral processing leverage, discussed below, offers other means of influence.

Currently, there are no established Chinese investments in the Sri Lankan mineral sands sector. However, China's prevailing dominance in mineral processing indirectly links Sri Lanka's mineral sand output with Chinese refineries. Sri Lankan mineral sand output is also linked to Chinese capital through other channels, such as the recent partnership between Titanium Sands Limited and the UK-based Global Mining Synergies. The partnership was formed specifically to build commercial alliances and joint ventures with Chinese mining companies aiming to secure Chinese capital for mine development and long-term offtake arrangements.[35]

Beyond bilateral trade, Sri Lanka's mineral sector intersects with China's broader geo-economic footprint in the Indian Ocean region, particularly through Chinese infrastructure projects under the Belt and Road Initiative (BRI). Although such projects largely focus on infrastructure such as building transport networks and ports rather than on mining investments, Sri Lanka's mining industry could significantly benefit from this logistical infrastructure. Although not part of the BRI network, ports such as the Hambantota port and the Colombo port's South Container Terminal, both operated under Chinese SOE China Merchants Port, could play a pivotal role in connecting Sri Lanka's mineral sector with China and the rest of the world. For instance, Hambantota port has an adjacent industrial park that could be used to develop a midstream mineral processing facility directly linking its output with advanced refineries in China.

34 UN Comtrade Database, "Trade Flow: Titanium Ore and Concentrates, India, 2025," United Nations Statistics Division, accessed August 2026, https://comtradeplus.un.org/TradeFlow.

35 Proactive Investors, "Titanium Sands Advances Sri Lankan Heavy Mineral Sands Strategy with Offtake Talks and Conference Sponsorship," June 17, 2026, https://www.proactiveinvestors.com/companies/news/1094012/titanium-sands-advances-sri-lankan-heavy-mineral-sands-strategy-with-offtake-talks-and-conference-sponsorship-1094012.html.

Table 1: Sri Lanka's share out of total Chinese exports in key mineral categories

Mineral	HS code	Volume of China's imports from SL in tonnes	Sri Lanka's % out of the total Chinese imports in each category
Graphite	250410	47.15	0.16%
Titanium ore and dioxide (Ilmenite, Rutile)	261400	667.16	0.01%
Natural Quartz	250510	622.07	0.07%

Source: Created by author using UN Comtrade Database

Chinese-controlled South Container Terminal at the Colombo port on the other hand, already connects Sri Lankan mineral output with the international trade routes.

Chinese geopolitical and geoeconomic leverage on Sri Lanka's mineral sector is thus shaped more by its processing dominance, and its extensive and strategic infrastructure network than through investments and acquisition of mineral assets.

Western engagement: US, EU, Australia

Western engagement with critical minerals originates from a de-risking logic, aimed at diversifying Western supply chains from China's prevailing dominance. The US Minerals Security Partnership (MSP), launched in 2022 and expanded through the MSP Finance Network, for instance mobilises both state and private capital towards mineral projects in the US and abroad notably in states that the US views as allies. One of the most notable partnerships in recent times was with Brazil whose rare earth giant Serra Verde was fully acquired by USA Rare Earths, a private US company with significant state backing, concluding Serra Verde's previous long-term offtake agreements with Chinese rare earth processing facilities.[36] The European Union has pursued a similar approach through its Critical Raw Materials Act along with a growing list of strategic partnerships with resource-rich states especially in Africa. It is important to note that, like US, the EU has also underscored compliance to environmental and labour standards as a condition for engagement. Australia, another major producer is also increasingly seeking partnerships both with its Western allies and other mining states in Africa and Asia. A notable example is its role in the 2025 QUAD Critical Minerals Initiative formed under the broader security alliance among US, Japan, India and Austra-lia, mobilising a USD 20 billion in funding.[37] Against this backdrop of booming Western investments in mineral-endowed countries, Western engagement with Sri Lanka remains thin. Sri Lanka does not appear directly in any of the Western critical mineral plans as a potential partner. Even from Sri Lanka, there has been no proactive engagement with Western investors. This gap likely arises from two main factors.

First, Sri Lanka's own status as a state recovering from sovereign default with an ongoing IMF programme, limited institutional expertise given the country's small scale mining ventures and the technical capacity deficit could be collectively increasing Sri Lanka's risk profile for foreign mining investment. Second, Sri Lanka may attract less attention from the West due to the absence of large scale mines with strategic minerals like lithium and cobalt that are most sought after by the Western industrial states. While countries like the Democratic Republic of Congo (DRC) have significantly higher risk profiles when compared to Sri Lanka, the West has shown that it is ready to embrace that risk in exchange for the access to DRC's extensive copper and cobalt resources, which Sri Lanka conspicuously lacks.

However, although comparably less in volume, West has long been a constant destination for Sri Lanka's natural graphite exports. While Sri Lanka's mineral sand exports to the West remained marginal, in 2025, the top 5 export destinations of Sri Lankan graphite comprised of Western or West-allied states importing a total of about 1300 tonnes of natural graphite. The top five destinations collectively accounted for approximately 85% of total graphite exports of Sri Lanka in 2025 while the regional giants India and China accounted for 3.2% and 2.6% respectively.[38]

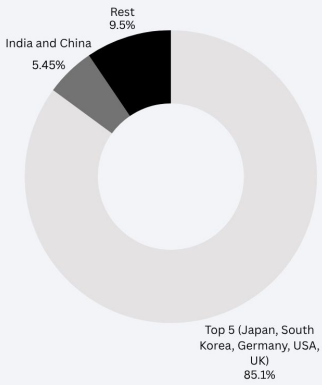
36 Hasarel Gallage. "Will the US–Serra Verde Acquisition Help Break China's Rare Earth Monopoly?" The Diplomat, May 5, 2026, https://thediplomat.com/2026/05/will-the-us-serra-verde-acquisition-help-break-chinas-rare-earth-monopoly/

37 International Energy Agency, "Quad Critical Minerals Initiative," IEA Policies Database, last updated July 2, 2026, https://www.iea.org/policies/29656-quad-critical-minerals-initiative.

38 UN Comtrade Database, "Trade Flow: Natural Graphite Exports, Sri Lan-

Based on the existing mineral trade between Sri Lanka and major industrial states in the West, notably for critical minerals,

Figure 2. Total graphite exports of Sri Lanka by country in 2025 (HS250410)



Source: Created by author using UN Comtrade Database

Sri Lanka is not likely to attract significant western investor interest in the immediate future. But there could be indirect channels of funding and investment potential via the QUAD Critical Mineral Initiative specifically through India and Japan. As India expands its mineral processing capabilities through QUAD's investments, Sri Lanka could strategically connect its mineral resources with Indian supply chains to form an integrated sub-regional supply chain. Sri Lanka could similarly expand its trade partnerships with Japan, the country's top export destination for its natural graphite, to claim a greater share of its industrial demand.

Yet, these benefits would come at a cost as Western derisking priorities would likely impose limitations, direct or indirect, on trade with China. China's own intention to sustain its dominance in global critical mineral will come into direct conflict with the West's demands, escalating a contentious geopolitical issue for a small state like Sri Lanka.

Sri Lanka's small state leverage

Sri Lanka's traditional foreign policy approach regionally and internationally has been one of strategic hedging. Sri Lanka's location right at the heart of the Indian Ocean remains strategically significant. But that also exposes the country to regional geopolitical contests. Sri Lanka has historically navigated its regional and international relations with a mix of economic cooperation, security engagements, and diplomatic ties to manage the vulnerability as a small state, maximise developmental aid, all the while ensuring its sovereignty. As the previous sections highlighted, while Sri Lanka may reap economic gains from mineral trade, it will also have to manage a delicate geopolitical situation that is likely to arise as Sri Lanka aspires to move up the critical mineral supply chain. The most critical contention would involve balancing its relations with China, while partnering with West-allied states that are seeking to derisk themselves from China.

The geopolitical challenges for Sri Lanka as it scales up its critical mineral industry are not just about balancing the structural interests of competing powers, but also about managing perceptions of both sides of Sri Lanka's role within the wider global critical mineral production network. China's footprint in Sri Lanka's economy is already a topic of debate, with Western and Indian discourses accusing China of a debt-trap. While extensive research studies have challenged and demystified the debt-trap framing, the narrative continues to be used, however incorrectly, to define Sino-Sri Lankan relations.[39] Any potential Chinese investment in mineral pro-

ka, 2025," United Nations Statistics Division, accessed August 2026, https://comtradeplus.un.org/TradeFlow.

39 Umesh Moramudali and Thilina Panduwawala, "Evolution of Chinese Lending to Sri Lanka Since the mid-2000s: Separating Myth from Reality," SAIS-CARI Briefing Paper No. 8 (Washington, DC: China-Africa Research Initiative, Johns Hopkins SAIS, November 2022), https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/65009b00df7fc16cbf39c0ad/1694538497092/Briefing+Paper+-+Sri+Lanka+Debt+-+V5.pdf; Lee Jones and Shahar Hameiri, "Debunking the Myth of 'Debt-Trap Diplomacy'," Chatham House, August 19, 2020, https://www.chathamhouse.org/2020/08/debunking-myth-debt-trap-diplomacy; Deborah Brautigam and Meg Rithmire, "The Chinese 'Debt Trap' Is a Myth: The Narrative Wrongfully Portrays Both Beijing and the Developing Countries It Deals With," The Atlantic, February 6, 2021, https://www.theatlantic.com/international/archive/2021/02/china-debt-trap-diplomacy/617953/.

cess-ing in Sri Lanka, especially if affiliated to Chinese-funded infrastructure like Hambantota port, therefore risks being viewed through the same debt-trap framing. On the flip side, West-backed investments in Sri Lanka's mineral industry, notably if sourced through alliances like the QUAD, would similarly be viewed by China as an attempt to exert undue influence on a close economic partner, especially given China's deepening awareness of the West's derisking agenda.

Wedged between two competing geopolitical channels, Sri Lanka must prudently negotiate to maximise economic gains of critical mineral trade while minimising the risks of a geopolitical competition. As a small state, the best approach for Sri Lanka would be polyalignment. There are already a few regional economic agreements like Indo-Sri Lanka Free Trade Agreement (ISFTA) and South Asian Free Trade Agreement (SAFTA) that Sri Lanka can exploit to forge favourable mineral partnerships in the region.[40]

Accelerating negotiations on the Economic and Technology Cooperation Agreement (ETCA) with India would also ensure Sri Lanka's access to India's fast-growing economy and mineral investments. Similarly, Sri Lanka has expressed its interests to join the Regional Comprehensive Economic Partnership (RCEP).[41]

Sri Lanka's engagement with the RCEP will not only deepen its economic ties with China, but also automatically link it with other leading mineral-producing states of Southeast Asia such as Indonesia, Vietnam, Myanmar and Philippines, with whom Sri Lanka doesn't currently have any bilateral FTAs. Sri Lanka could strategically use its mineral resources to simultaneously influence India and China into fast-tracking Sri Lanka's admission into ETCA and RCEP economic blocs which would bring wider economic gains for Sri Lanka beyond minerals.

Taken together, India's search for supply security, China's defence of its processing dominance, the West's call for de-risking its supply chains, and the unresolved disputes over potential deep-sea resources illustrate that Sri Lanka's mineral future will be shaped by external rivalries as well as domestic structural constraints. Whether this would be a strategic leverage or a new geopolitical tension will depend on how skilfully Sri Lanka can navigate the competing interests of India, China, and the West.

40 The opportunities and challenges within FTAs like the ISFTA with regard to mineral trade will be discussed in detail in the subsequent report of this series, which focuses on mineral trade and value addition.

41 Office of the Cabinet of Ministers Sri Lanka, "Sri Lanka's Accession to the Regional Comprehensive Economic Partnership Agreement," Press release 24 November 2025, https://www.cabinetoffice.gov.lk/cab/index.php?option=com_content&view=article&id=168&Itemid=49&lang=en&dID=13581

Box 1: Policy Recommendations

Formalise the India relationship:
The pending MoU on "Cooperation in the Field of Geology and Mineral Resources" and KABIL's interest in vein graphite represent two of the most prospective avenues to connect Sri Lanka's mineral resources with the India's fast-growing mineral industry. Sri Lanka should prioritise finalising the MoU and steering interests of Indian investors towards concrete agreements.

Making use of existing FTAs and fast-tracking new partnerships:
Sri Lanka already has a few FTAs and bilateral partnerships with some of the mineral-rich states in the region. Sri Lanka should thus focus on strengthening those FTAs and partnerships, and on broadening their scope to include mineral trade. Other partnerships that are still in their negotiation phase, notably the RCEP, should also be fast-tracked, again ensuring that they cover mineral related exports.

Tackling the misconception risk:
Given how quickly any future China-linked mineral investments could be mis-framed, Sri Lanka's government and Chinese partners should proactively structure and communicate the terms of any future agreement to prevent such framings before it could escalate into a geopolitical tension.

Pursue the QUAD's indirect channel deliberately:
With direct Western investment unlikely in the near term, Sri Lanka could deepen its partnership with India's QUAD-backed investments as an indirect yet more realistic approach to connect with the Western market.

Resolve the ANS dispute through negotiation:
As long as it is not amicably resolved, the ANS dispute will likely continue stalling the progress of Sri Lanka's claim to extend its continental shelf and India's mining requests to the ISA, depriving both countries of the vast untapped resources of the ANS. Sri Lanka should therefore pursue negotiations with India without delay, while using its leverage to secure capital and technology transfer in exchange for a resolution.

Factum
29/A, Marine Drive,
Colombo 03,
Sri Lanka.

Phone: +94 77 040 99 61
Email: info@factum.lk
Web: www.factum.lk

Facebook: facebook.com/Factum.lk
Instagram: instagram.com/factum.sl
Twitter: x.com/factumlk
LinkedIn: linkedin.com/company/factumlk

