Sri Lankan involvement in developing the maritime silk road


Dr. Tsz Leung Yip, *Associate Director, C.Y. Tung International Centre for Maritime Studies and*
Kelly Yujie Wang, *PhD Candidate, Hong Kong Polytechnic University, Hong Kong*

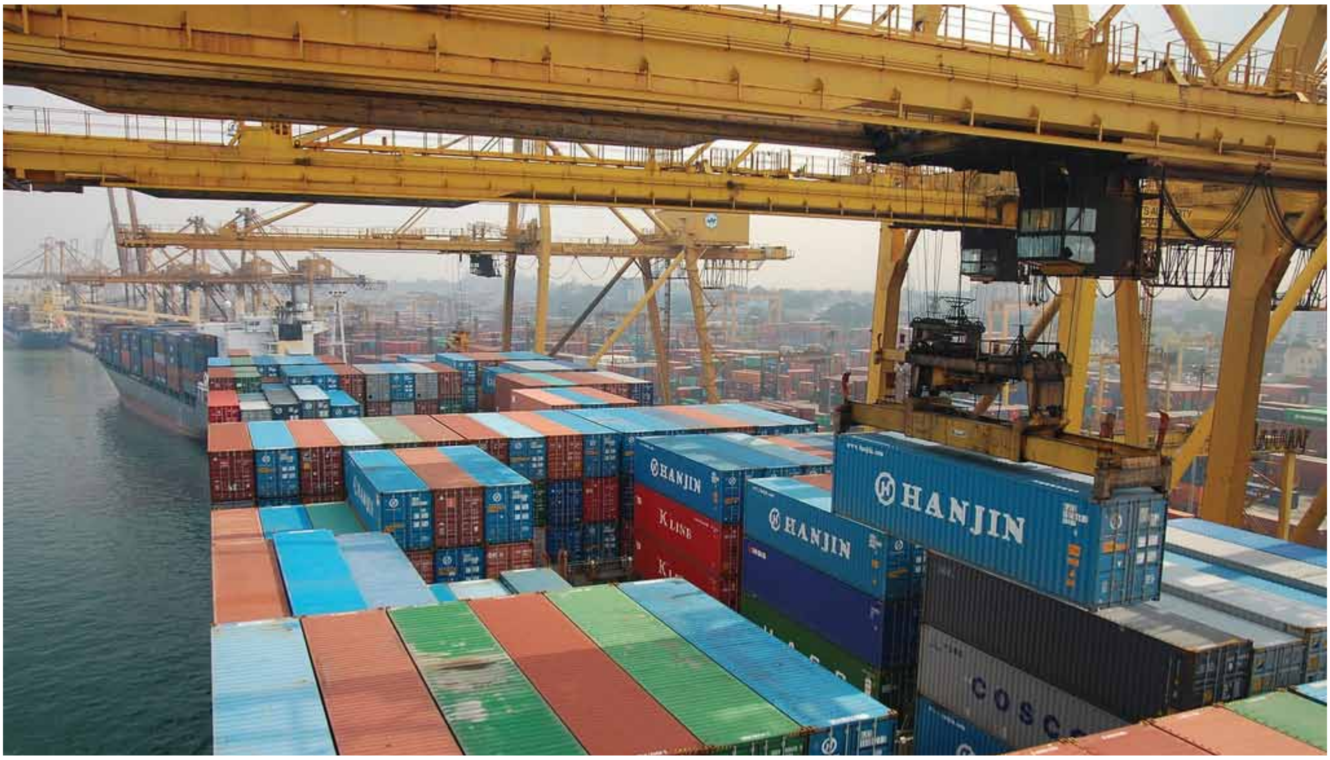
In October 2013, China proposed the revival of the Maritime Silk Road (MSR). This is designed to enhance connectivity and promote mutual development among the countries from the Far East to the Indian Ocean to Africa. In February 2014, Sri Lanka was the first country to support China's plan. China and Sri Lanka have a long history of traditional friendship. Even when the two countries had yet to establish any diplomatic relations, Sri Lanka, despite the blockade of the western countries to China, signed the '1952 Rubber Rice Pact' with China, creating a history of friendly bilateral economic and trade cooperation. Over the years, the two governments have encouraged their enterprises to mutually invest, as well as strengthen cooperation in agriculture, fisheries, tourism, and cooperation in infrastructure construction, energy and resources development among other fields.

Sri Lanka is located strategically along the proposed MSR between Asia and Europe. To its east, it links to Malacca, the Sunda Straits and the South China Sea; and to its west, it connects to the Red Sea, the Persian Gulf, Cape of Good Hope, and Suez Canal. The waters around Sri Lanka, located to the south off India, are the bottleneck of the MSR between China and Europe or Africa.

Sri Lanka therefore promises a comparative advantage for potential transhipment, bunkering and port services. There are two international ports (Colombo and Hambantota) and four regional ports (Galle, Oluvil, Tricomalee and Kankasanthuri) in Sri Lanka. All of these ports are managed by Sri Lanka Ports Authority. Colombo and Hambantota ports have the potential to become high-ranked international ports, as Indian deepwater ports, including Dhamra, Jawaharlal Nehru, and Krishnapathnam, are not located close to Sri Lanka.

Due to limited financial resources of the Sri Lankan government, the majority

Credit: Photo courtesy of the Sri Lanka Ports Authority (SLPA)



The Port of Colombo, Sri Lanka.

of projects currently rely on international financial institutions and bilateral investors. In order to attract private capital and foreign investment in the construction of major projects, the Sri Lankan government has begun to introduce 'build, own, operate, transfer (BOOT) or build, operate, transfer (BOT) and public-private partnership (PPP) mechanisms. Sri Lanka's Department of National Planning (2010) reported that only one out of five port projects was financed by the Bank of China (see Figure 1), while Sri Lanka socio-economic data shows that China is the largest economy that invests in Sri Lanka (see Figure 2).

China as a maritime giant

The construction of the Colombo Terminal is not a secret deal but the result of the public bidding (see Figure 3). The China contractor China Harbour Engineering Company Limited (CHEC) won the bid by the cost advantage. CHEC has businesses around the world covering more than 80 countries and regions, with the construction project contracts amounting to approximately US$10 billion and employing more than 10,000 people. CHEC is a wholly owned subsidiary of China Communications Construction Company Limited (CCCC). Chinese companies have accumulated

Port Project	Activities	Investment
Colombo South Harbour	Construction of: A new 285-hectare harbour basin with a width of 570 metres and a depth of 20 metres; Wide approach channel; A new major breakwater and small breakwater; A new marine operations centre; Three container terminals.	Domestic: 19.8 million Rupees Foreign: 33 million Rupees (Asian Development Bank) Private: 33 million Rupees
Port of Hambantota	Construction of: A breakwater 1,000 metres in length; Two berths and an approach channel; Harbour basin which can be dredged up to 16 metres.	Domestic: 8.4 million Rupees Foreign: 33.77 million Rupees (EXIM Bank of China)
Port of Oluvil	Construction of: Two breakwaters – 550 metres in length and 755 metres in length; Dredging up to eight metres in the harbour basin to accommodate 5,000 DWT vessels in the first phase and 16,000 DWT vessels in the second.	Domestic: 1.23 million Rupees Foreign: 4.95 million Rupees (Netherlands)
Port of Galle	Construction of: A multi-purpose terminal and breakwater; Channel and harbour basin dredging; Procurement of equipment and navigational aids.	Domestic: 3.38 million Rupees Foreign: 13.53 million Rupees (JICA)
Kankasanthuri Harbour (KKS)	Repair the main breakwater and existing structure in the harbour; Remove the three sunken vessels laying close to the KKS Port.	Domestic: 20 million Rupees Foreign: 80 million Rupees

Figure 1: Key port development projects in Sri Lanka. Source: Department of National Planning (2010). Mahihda Chintana – Vision for the Future – Annex 4.2.1.

	2008	2009	2010	2011	2012
Asian Development Bank (ADB)	155	148	199	139	160
China	32	283	98	6	650
International Development Association (IDA)	39	91	85	130	98
Korea	7	3	31	22	37
Japan	2	35	92	114	112
Other	-162	403	1,362	1,535	1,045
Total	74	962	1,867	1,946	2,012

Figure 2. Foreign assistance in US dollars (million). Source: Sri Lanka socio-economic data, June 2013.

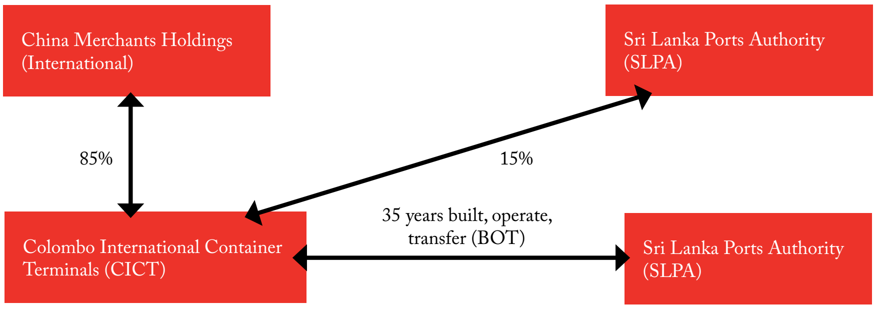


Figure 3. The BOT contract of Colombo terminal. Source: Colombo International Container Terminals Ltd.

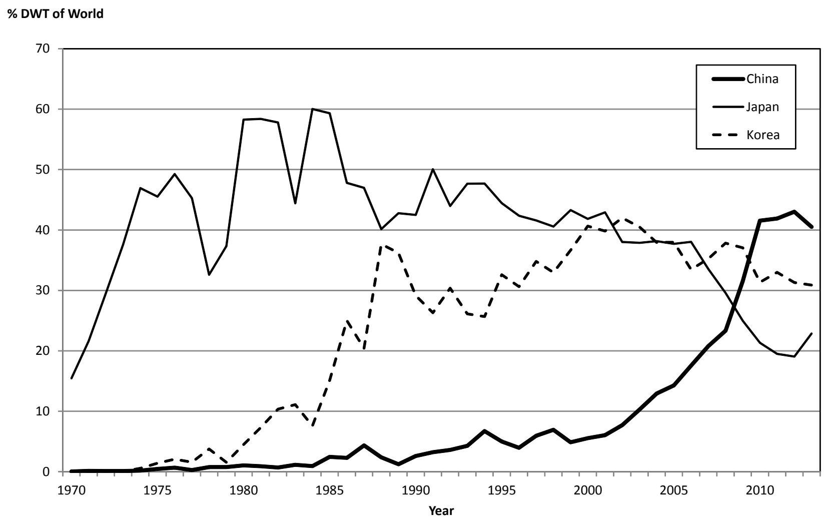


Figure 4. Ship deliveries by area.

a wealth of international commercial experience in large-scale infrastructure construction, energy sources and transportation. According to the China Global Investment Tracker (2011) from the Heritage Foundation, China overseas investment includes over 300 transactions of US$100 million or more in 2005-2010.

China's container throughput increased 260 percent from 55 billion twenty-foot equivalent units (TEU) in 2004 to 144 billion TEU in 2011. Chinese container ports handle around 17 percent of global container throughputs, according to the World Bank. Shanghai is the largest sea port for container handling as well as shipbuilding and port equipment. A Chinese manufacturer of port equipment, Shanghai Zhenhua Heavy Industry Co. Ltd. (ZPMC), is a major supplier and has become the market leader in the quay cranes market. China Merchants holdings (International) Company limited (CMHI) is the largest public port operator in China. Its port network covers Hong Kong, Shenzhen, Ningbo, Shanghai, Qingdao, Tianjin, Xiamen and Zhanjiang. CMHI terminals in China accounted for 32 percent of China's total container throughput.

China's increasing role in shipbuilding is identified in Figure 4. The port industry is a very attractive industry for a country, since it can bring in substantial amounts of foreign investment in manufacturing. China has been a leading manufacturer since the 1990s, and many emerging economies, including Sri Lanka, are following a similar pattern of port development to China.

Insights of China's three Strategies

China's investment in Sri Lanka can be summarised by three strategies.

Strategy 1. Partnering, but not managing - The first step is to ascertain the need to establish some forms of partnership. Rather than coming to manage overseas projects, China has broadened its strategic objective into building partnerships. Its building strategy will ultimately bring lasting success to China.

Strategy 2. Building, but not selling - A Chinese company is a builder rather than a salesman. Chinese companies are not selling their products or expertise in the foreign markets. A Chinese company that builds will consider its impact on its partner's strategic objectives and added value. In order to build, several Chinese companies integrate their resources and core competencies with that of partner countries.

Strategy 3. Giving, but not taking - China commits resources to become a builder. China allocates its financial resources and expertise, and more importantly, a firm commitment with its partner countries over a long time. For Sri Lanka's Colombo terminal, the Chinese company here commits to a 35-year BOT contract.

China's activities in Sri Lanka have clearly illustrated the above three strategies.

About the authors

Tsz Leung Yip is the Associate Director of C.Y. Tung International Centre for Maritime Studies at the Hong Kong Polytechnic University. Dr Yip's interests include marine traffic, port and terminal logistics and commercial shipping with risk analysis.

Kelly Yujie Wang is a PhD candidate in the department of Logistics and Maritime Studies at the Hong Kong Polytechnic University. Ms Wang's research interests are in port logistics and transport economies areas.

About the organisation

The C.Y. Tung International Centre for Maritime Studies is a reputable world centre engaged in the education and research of logistics and maritime studies. The centre continues to promote academic and industrial collaboration and forge partnerships to benefit the logistics and maritime sector.

Enquiries

C.Y. Tung International Centre for Maritime Studies
Department of Logistics and Maritime Studies
Hong Kong Polytechnic University
Hung Hom
Kowloon
Hong Kong

Email: cyt.icms@polyu.edu.hk
Website: www.icms.polyu.edu.hk