



Pathfinder Economic Alert

## **Colombo Port City Project, Monster or Trans-formative Opportunity?**

Since the beginning of the recent Presidential election campaign, development projects initiated or implemented by the Rajapaksa administration have come under severe criticism by the opposition, mainly on the grounds of corruption or wasteful expenditure. Although the allegations are still being made and are yet to be substantiated in a court of law it is reasonable to assume that a perception has been created among the public against corruption and malpractices. However, long term socio-economic benefits of most of these projects have not been questioned by even the anti-corruption critiques. The writer can vividly remember a similar uproar against the Accelerated Mahaweli Development Project and its numerous components during the early 1980s. In both these situations, criticisms were not necessarily on the outcomes of the project implementation but on the transparency of the processes. Among the projects initiated by the previous administration which came under severe scrutiny, the largest, most diversified and integrated development project is The Colombo Port City Project (CPCP). The purpose of this article is to highlight the salient features of this landmark project and analyse the impact of implementing a project of this nature on the Island of Sri Lanka, strategically located in the Indian Ocean.

### **What is the Colombo Port City Project (CPCP) all about?**

As usual Sri Lankan politicians, particularly those groups who are opposing the specific development projects, tend to depend on 'slogans' and vituperative statements instead of presenting a balanced analytical view. The CPCP too, unfortunately, is being subjected to senseless attacks rather than substantive criticism based on facts and figures. At the end of the day, the general public and even some of the critics have a very vague understanding of the project, its components and potential impact on Sri Lanka's future development. The Accelerated Mahaweli Development Project too generated similar politically motivated backlashes.

The CPCP, according to reports, was conceived by the Prime Minister, Ranil Wickramasinghe even prior to year 2001. He was motivated by a prospective Singaporean investor who later withdrew due to an inability to raise the required funding for implementation. After the end of the war, in 2009, the Rajapaksa government initiated an unprecedented infrastructure development program within which the CPCP becomes the

centerpiece. Fortunately, this time around funding in the form of direct investment, with no burden on government coffers has originated from a Chinese company, the China Communications Construction Company (CCCC).

The Chinese company would have been in a more advantageous position to implement this project due to work previously undertaken by another Chinese investment project, the Colombo International Container Terminal (CICT). In the case of the CICT project as well as the Port City Project, investors would have been greatly benefited from the Asian Development Bank (ADB) funded Colombo breakwater construction which had already been completed. In this sense, this entire integrated Colombo port expansion and Port City development could be seen as a logical development that has materialised over a long period.

As explained in the promotional material, the salient features of the project include: a marina and yacht club, a central boulevard, a sea view apartment complex and a five star hotel, shopping and entertainment centre, office space, a mini golf course, and many other modern facilities. The first phase of the project is the reclamation of land by the CCCC and the cost estimated for this was US\$ 1.5 billion. Once the reclamation is completed the overall investment is expected to be between US\$ 15 to 20 billion.

### **Potential Benefits: Developing Sri Lanka as an International Commercial Centre**

Although the CPCP is subjected to many controversies no one has challenged the potential benefits of a massive integrated development project of this nature. The reclamation and construction of the port city will itself create subcontracting and employment opportunities for the local community. The medium and long-term vision of the sponsors of the project is to establish Colombo as an international business hub and a unique tourist destination in Asia. Therefore, the opportunities to be created for the Sri Lankan youth in many modern economic sectors will be very substantial in the long term.

The investment envisaged and the scale of operations of CPCP are massive in the context of a small economy like Sri Lanka. It is a very rare occurrence to attract 100% foreign investment for a project which has a very long gestation period. In many other countries such massive port city developments have been co-funded by the government of the host country and the governments of other friendly nations with the balance investment being generated from private sources. The best example of promoting a port city through direct government initiative and investment is the Dubai Port City Project.

The remarkable achievement of Sri Lanka was its ability to attract 100% foreign investment to implement this initiative of hitherto unheard magnitude in South Asia. The multitude of commercial activities envisaged to be promoted within the port city complex will have roll over beneficial effects throughout Sri Lanka for generations to come.

The incentives offered to the developers constitute 20 hectares of freehold and a further 88 hectares on a 99 year lease out of the total reclaimed land of 233 hectares. As a result, this US \$15 – 20 billion investment can be implemented without any addition to the country's debt burden at a time when the headroom for such borrowing has become constrained.

## **Environmental Concerns**

Any development projects which will lead to the slightest changes in the environment may be criticised as ‘environmentally damaging’. The CPCP which involves large scale reclamation, adding to the land mass of the island, and sand mining from the ocean can easily be tarnished as having negative impact in the longer term. Non-Governmental Organisations (NGOs) too may come forward with numerous reasons as to why a project of this nature should not be implemented. In this context, the infamous protest campaign waged against the Kandalama hotel project with fabricated environmental concerns is a good example. Of course, environmentalists went beyond natural science and logic to stage protests in Dambulla. Among those environmentalist NGOs there were quite a few organisations promoted and funded by various interest groups both foreign and local. Today, Kandalama is one of the most environment friendly hotels in the country which earns millions of dollars from tourists while helping the surrounding villagers. A similar example of damage caused by the so called environmentalists was the postponement of the Norochcholai Power Plant project for decades due to the protests by interested parties. Consequently, households and businesses were saddled with higher electricity prices which undermined the competitiveness of the economy. As a result households suffered lower disposable income and the economy experienced a loss of investment and employment. Taking these historical facts into consideration no government in a country like Sri Lanka should abandon or even delay multifaceted, long gestation projects such as the port city development, highway construction or establishment of industries on the basis of unsubstantiated protests by so-called environmental groups.

## **Concerns of Other Countries**

It appears that there are some hidden hands behind the objections to CPC project, based on misconceived notions promoted and supported by countries that are annoyed by the Chinese emergence as a major economic power and investing in countries which they consider as within their sphere of influence. Unfortunately, some of these countries fail to understand that development of port cities such as Dubai, Singapore and Hong Kong have benefited the hinterland massively. When Singapore was opening up and developing with FDI from all over the world big brothers like Malaysia and Indonesia might have had the same attitude towards the fast developing neighbor. Fortunately, Singapore had a brave, visionary leader in Lee Kuan Yew.

## **Options Available for the President, Prime Minister the Government and Sri Lanka**

1. Abandon the project, cancel all approvals granted and restore the Colombo water front. This will entail enormous direct and indirect costs probably leading to expensive international litigation. In future, foreign investors whether Chinese, Americans, British or Indians will have difficulty in trusting any agreement entered into by the Sri Lankan government.
2. Abandon the project, provided the interest groups or countries opposing the implementation of the port city by a Chinese firm can guarantee immediate replacement of such investors with the parties they feel comfortable with.

3. Stand firm and allow the current arrangement to proceed on the understanding that any corrective action, where necessary, will be taken by CCCC to improve the final outcome.

What should not be done by any sensible leadership in Sri Lanka is to forgo a rare opportunity of a massive multifaceted investment project funded 100% by FDI. Sri Lankans hope that the President, the Prime Minister and their economic team will expeditiously take decisions and remedial actions, where necessary, to ensure the country's development will continue to progress irrespective of the political differences, personal animosities and/or egoistic conflicts. When progress is stalled it is the leadership that is accountable to the people and finally pay the supreme price of losing power.

### **Well Meaning Advice**

*The leaders should not allow personal animosities, vengeance and petty political considerations to prevail in making policy decisions. They should be strictly guided by facts, and most importantly by what is good for the country in the long term, when deciding on development priorities for the country, especially with regard to crucial areas such as investment, both FDI and local, fiscal consolidation and promoting ease of doing business. Good governance, reconciliation and co-existence must go beyond the present emphasis on ethnic harmony to a clear and transparent programme of action to include the business sector too.*

*It is important to formulate and implement a clear and forward-looking medium-term economic strategy for creating a conducive investment climate which incentivizes the private sector to play its essential locomotive role in the economy.*

***This is the Seventy First Economic Alert of Pathfinder Foundation. Readers' comments are welcome at [www.pathfinderfoundation.org](http://www.pathfinderfoundation.org)***