

## Revival of Colombo Port City Project: Implications for India

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The Colombo Port City Project is a significant and arguably among Sri Lanka's most controversial infrastructure projects. Initiated by the former President Mahinda Rajapaksa with a vision to rejuvenate Sri Lanka's stagnant economy, the project is worth about \$1.4 billion. The Chinese President Xi Jinping and former Sri Lankan President Rajapaksa officially launched the port project in September 2014.

Soon after Maithripala Sirisena became President in January 2015, however, he suspended the contract in March 2015, citing various shortcomings, irregularities and ecological issues. But this suspension was temporary in nature, and the project was revived in March 2016. The project has, nonetheless, raised questions on the Sirisena government's probity, which came to power questioning the huge investment by the Chinese in Sri Lanka, which he argued would lead to an avoidable dependence on China.

This issue brief aims to review the contested developments relating to the Colombo port project. It also attempts to analyse the growing strategic relations between Sri Lanka and China, and its implications for India.

### **The Project**

The Colombo deal was first signed in November 2013 between the Rajapaksa Administration and the Chinese state-owned firm, China Communications Construction Company Pvt. Ltd. (CCCC). It is one of the largest foreign investments in Sri Lanka till to-date. The project is due for completion by September 2017.

The project envisaged a mega city in Colombo, to be built on reclaimed land adjacent to the Galle Face Green, where 182 hectares of existing land has been allotted.<sup>1</sup> The Colombo Port City is portrayed as an iconic business district with shopping and water-sports areas, a mini golf-course, hotels, apartments, recreation areas and a luxury yacht marina.<sup>2</sup> It was initially planned to be built over 233 hectares, which has now been expanded to 269 hectares after reclamation.<sup>3</sup>

On 6 March 2015, the project was suspended by the Sirisena government, citing allegations of corruption against the Rajapaksa Administration, and the absence of a feasibility study before the contract was awarded. During this period, the Chinese company incurred a daily direct loss of \$ 380,000. The suspension also led to direct and indirect adverse effects on the on-site workers, both Chinese and Sri Lankans. Despite ecological concerns and allegations of corruption, in March 2016, the government resumed the port project, signifying its importance for Sri Lankan economy.

The port project has now been renamed the 'Colombo International Financial City'. The Sri Lanka government has stated that it would be transformed into an international financial hub in the Indian Ocean Region (IOR). On 12 August 2016, a Tripartite Agreement was signed by the Sri Lankan government, its Urban Development Authority (UDA) and the Chinese firm CHEC Port City Colombo Pvt. Ltd.

## **Sri Lanka's Stakes**

The project is significant for Sri Lanka as it seeks huge Chinese investment. The Rajapaksa Administration had a more pronounced pro-China tilt, whereas the new Sirisena government rose to power promising a re-evaluation of Chinese investment in the country. Since January 2015, the new government has sought a more nuanced foreign policy to resurrect the imbalance caused by the preceding government in the fragile India- Sri Lanka ties. This began with suspension of the port project and cancellation of various Chinese tenders on highways, ports and airports. The current administration realizes its predicament of inviting huge Chinese investments, but is helpless in this regard since such large investments are not easily forthcoming from elsewhere. Notwithstanding the revival of the project, there are at least four concerns associated with it.

(a) *Land Ownership Issues*

The Rajapaksa Administration promised the Chinese company free-hold rights on 20 hectares of land. Due to the controversial nature of this stipulation, the Sri Lankan government has instead agreed to provide the land on a 99 year-lease. In the new agreement, reclaimed land will be notified by a Presidential gazette under the Lands Ordinance and thereafter, allocated to the UDA.<sup>4</sup>

(b) *Environmental Impact.*

The Rajapaksa administration did not undertake any comprehensive Environmental Impact Assessment (EIA) of the project prior to its approval. Activists have been highlighting the serious environmental implications of the project, especially with regard to massive granite extraction and land reclamation.

The demand for granite on the construction site has resulted in large-scale exploitation by mine owners. This has led to falling ground-water levels in the area, posing serious water shortages for the island nation. On a larger scale, reclamation and extraction are destabilizing the ecology of the region, leading to increasing natural disasters in sensitive areas.<sup>5</sup> However, the Sirisena administration has not yet addressed these environmental issues and has chosen to continue with the project.

(c) *Impact on Fishermen.*

In 2007, the Rajapaksa administration promised 1,000,000 Sri Lankan rupees each to the fishermen affected by the project, but later failed to fulfill its commitment. The project has led to large-scale displacement of the fishermen community. The large amount of sand dredged in the reclamation process is becoming a major concern for fishermen using primitive methods of fishing, which is usually undertaken in shallower waters. After the revival, the project company has promised to allocate 500 million Sri Lankan rupees towards the fishermen's income support programme through the government of Sri Lanka.

(d) *Controversy over Compensation*

The claim of \$125 million as compensation by the Chinese company, for losses incurred during the suspension period of more than a year, was later withdrawn. This was done keeping in mind the significance of the project. The Sri Lankan Cabinet in turn has approved allocation of additional two hectares of land to the Chinese

company to reciprocate the complete waiver of all compensation claims by the Chinese.<sup>6</sup>

The Sirisena administration suspended the port project in an effort to move away from the previous government's tilt towards China. The suspension, however, could last only a year. The revival of the project signifies Sri Lanka's desperate need for investments, and its inherent dependence on China. Clearly, therefore, Colombo cannot afford to alienate Beijing.

It is pertinent to mention that the Chinese Ambassador to Sri Lanka, Yi Xianliang sought to address the apprehensions of the local Sri Lankan people over Colombo and Hambantota port projects by stating that "when these projects reach fruition, Sri Lankans will know who their real friends are."

## **China's Stakes in Sri Lanka**

The Indian Ocean is an important arena for trade and energy flows, accounting for half of the world's container traffic and 70 per cent of its energy shipments.<sup>7</sup> The energy requirements of the world will rise by 50 per cent by 2030, and almost half of that will come from India and China, making it a strategically important water body.<sup>8</sup> Due to its heavy dependence on Indian Ocean sea routes for trade and energy supplies, China has made substantial financial investment in India's maritime neighbours like Bangladesh, Maldives, Pakistan, Myanmar and Sri Lanka.

The 'One Belt and One Road' (OBOR) is one such initiative by China that has significant geostrategic and geo-economic connotations. The maritime dimension of the project consists of a network of ports and other coastal infrastructure from China's eastern sea board through Southeast Asia, South Asia, the Persian Gulf, East Africa and the Mediterranean Sea.<sup>9</sup> Through OBOR, China seeks to strengthen its economic and strategic relations with Sri Lanka and IOR littorals, which are geo-strategically located along the International Shipping Lanes (ISL) linking East Asia with Europe.

China has been developing maritime infrastructure in several Indian Ocean countries such as Bangladesh, Maldives, Myanmar, Pakistan and Sri Lanka. The infrastructure projects in these littoral countries are rightfully stated by China to be for 'economic' ends, but their dual-use nature could, at least potentially, enhance its military-strategic presence in the IOR. China may even try to set up more such facilities such as the one in Djibouti for providing

maintenance and resupply facilities to its naval ships on escort missions.<sup>10</sup> The docking of Chinese submarines in September and November 2014 at Colombo port amply showcases China's intent for an enhanced naval presence in the IOR.

## **Implications for India**

The Colombo port project, while being of significant economic importance to Sri Lanka, has severe political ramifications for India-Sri Lanka bilateral relations. The Rajapaksa government had an overt pro-China tilt, which the Sirisena government has tried to rectify to balance its relations between India and China. While the termination of the project in March 2015 indicated Sirisena government's commitment to the cause, its subsequent revival has shown that economic advantages of the project far outweigh the political consequences for the Sri Lankan government. Notwithstanding this, the Sirisena government has attempted to mollify India's apprehensions by assuring Prime Minister Modi that India's concerns would be addressed. The Sri Lankan government has also altered the earlier provision of 'free-hold' land to China, into a 99-year lease. While these measures may have quelled some of India's concerns, there is little doubt that the revival of this project has somewhat dented the bonhomie between India and Sri Lanka.

The increasing Chinese strategic presence in the Indian Ocean has raised security concerns for India, especially in its immediate neighbourhood of Sri Lanka. There is a growing concern that the ports developed for commercial use by China could later serve military and strategic purposes, with significant security implications for India.

The revival of the Colombo port city project has notable economic implications for India as well. If India has to mitigate the geo-political effects of Chinese investment in the region, it has to significantly increase its foreign aid and investment in neighboring countries. Moreover, Colombo already acts as a transshipment port for Indian goods. This raises questions on the economic viability of the proposed deep-water port at Vizhinjam in Kerala, as it would have to directly compete with Colombo and would be somewhat disadvantaged by geography in doing so. These factors make it important for India to recalibrate its policies in the region so as to combine economic growth with diplomatic success.

The questions on impact of the Colombo port project on surrounding ecology and environment still remain largely unanswered. The effects are bound to be felt by India too. Extensive mining for granite, reclamation of land and dredging have altered ocean current patterns in the region, putting the entire local marine ecosystem to risk. The long-term environmental impacts of the project will require to be studied with a view to mitigating its negative effects on the coastal population of southern India.

## **Conclusion**

The renewal of the Colombo port project highlights its economic importance to Sri Lanka and has led to a new phase in Sri Lanka – China relations. This has come about despite continuous petitions from the Sri Lankan fishermen community and concerns raised by environmental activists.

China's investment outreach the regional countries through initiatives such as the 'Maritime Silk Road' are raising concerns in India. Apart from creating a security dilemma, they also pose economic and environmental concerns for India. To offset these concerns, it is essential for India to recalibrate its strategy towards its immediate neighbours to achieve a favourable end-state.

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