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The Belt and Road Initiative and Potential Economic Benefits to Sri Lanka

An LKI Roundtable with Dr. Ranee Jayamaha, Lead Consultant
(South Asia), The World Bank Group

Reported by Nicola Wijeyarathna *

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***Nicola Wijeyarathna** was a Project Coordinator at the Lakshman Kadirgamar Institute of International Relations and Strategic Studies (LKI) in Colombo. These *Takeaways* summarise the insights and discussion at a recent LKI event. They are not the views of the reporting author or the institutional views of LKI, and are not a complete report of the event.

Three key takeaways from the round table with Dr. Raneer Jayamaha -

- 1. The potential gains of the Belt and Road Initiative (BRI) depend on the willingness of participating countries to face challenges and utilise available opportunities. The governments of ASEAN and Asia-Pacific countries are preparing for this.**
- 2. However, Sri Lanka remains indecisive on its role in the BRI. It is imperative for the government to establish a comprehensive policy framework and decision-making body to determine Sri Lanka's role, while preserving national sovereignty and securing the potential benefits of the initiative.**
- 3. The development of Sri Lanka's transport infrastructure, ports, airports, highways and railroads is vital for maximising the benefits of its strategic location on the Silk Route. Sri Lanka should continue to promote BRI in its infrastructure development and seek further investment in other related projects.**

Introduction

- Dr. Raneer Jayamaha – the Lead Consultant (South Asia) at The World Bank Group – addressed a Foreign Policy Round Table at the Lakshman Kadirgamar Institute (LKI) on “The Belt and Road Initiative and Potential Economic Benefits to Sri Lanka” on 23 October 2017.
- The Round Table was attended by members of LKI's Board of Management, representatives from the Ministry of Foreign Affairs, the Ministry of Development Strategies and International Trade, diplomatic missions, the Central Bank, the World Bank, think tanks and the private sector.
- The Round Table was moderated by Dr. Dinusha Panditaratne, Executive Director of LKI.

Takeaways from Dr. Jayamaha's Presentation:

Overview

- The BRI aims to develop two economic routes – one land-based and the other sea-based – across Africa, Europe and Asia, in an attempt to facilitate connectivity and promote policy cooperation, trade and investment and cultural exchange.
- The BRI aims to launch several development projects in Southeast Asia, including in Malaysia (East Coast Rail Link); Myanmar (Kyaukpyu Port); Pakistan (China-Pakistan Economic Corridor and Gwadar Port); and Sri Lanka (Hambantota Port and Colombo Port City). These projects are intended to increase market potential, investment, and employment opportunities for China's firms, as well as to advance regional sustainable development.

- The Silk Road Fund provides funding for the initiative, with a total capital of USD 100 billion, of which the government of China has already contributed USD 40 billion. The Fund is sustained through the joint contributions of the China Development Bank, the Export-Import Bank of China, China Investment Corporation, and the State Administration of Foreign Exchange.

Developing Sri Lanka's Infrastructure

- Improving Sri Lanka's infrastructure is vital to maximising the benefits of its strategic location on the BRI's Maritime Silk Route.
- Phase I of the Hambantota Port was completed in 2011 and accumulated an estimated loss of LKR 46.7 billion, with an annual loan repayment of LKR 9 billion until 2016.
- In July 2017 Sri Lanka's government and China Merchants Port Holdings (CMPH) signed a Public Private Partnership (PPP) for USD 1.12 billion, that granted CMPH a majority stake in the Hambantota Port. The PPP will facilitate the establishment of two companies for the efficient management of future port operations. The government has also proposed developing 15,000 hectares of land surrounding the port into an industrial zone.
- A tripartite agreement was signed in July 2017 between the Ministry of Megapolis and Western Development, the Urban Development Authority, and the China Harbour Engineering Corporation. This agreement revitalised the Colombo Port City Project and rebranded it as the Colombo International Financial City (CIFC). The potential of the CIFC to elevate Sri Lanka's status as a commercial hub in South Asia merits a comprehensive policy discussion.
- The Mattala International Airport, despite being of an international standard and at a strategic location on the Silk Route, is currently operating at a loss. Losses incurred by the end of 2016 are estimated at USD 112.9 million. India is currently considering a joint venture for the management of operations, and the proximity of China's Hambantota project and proposed industrial zone indicates the potential for the airport's revival.

Potential Benefits for Sri Lanka

- The BRI presents an opportunity for development that would otherwise be difficult to attain by the government of Sri Lanka. The government is unable to finance infrastructure development on its own, and international financial institutions do not provide extensive long-term loans. The private sector is also wary of policy irregularity to pledge investment support.
- BRI investment has had a positive impact on Sri Lanka's gross official reserves, which rose from USD 5 billion in April 2017 to USD 6.9 billion by June 2017, nearing the IMF's 2017 target of USD 7.4 billion. Furthermore, external debt maturities for 2019-2022 currently amount to USD 13.8 billion, and the investment of USD 1.12 billion into Hambantota has eased the pressure on immediate debt servicing.

- The Hambantota port could also encourage future portfolio investments, as investor confidence increases. This inflow of foreign direct investment is essential to strengthening the country's vulnerable balance of payments.
- There is also an opportunity to develop other industrial and free trade zones related to the Maritime Silk Route, as indicated by the Board of Investment's demarcation of six zones for bonded warehouses in its 2017 project proposal.
- The port of Colombo ranks among the top 30 global ports and the increased capacity of the Colombo International Container Terminal managed by China has attracted major shipping lines to the port. Further BRI investment could allow the Colombo port to benefit from connectivity to ASEAN and Asia-Pacific's supply chains, which offer improved infrastructure services, relatively low IT labour costs, resources for oil and gas exploration, and the clustering of Sri Lanka's SMEs to regional industrial firms.
- Sri Lanka's exclusive economic zone (EEZ) as demarcated by the UN Convention on the Law of the Sea (UNCLOS) currently encloses approximately 517,000 km². Extending the EEZ is currently under UNCLOS consideration. Conducting a maritime exploration programme for the exploitation of minerals and hydrocarbons in this region could become a potential BRI project.

Challenges Regarding the BRI

- The BRI's ambitious aim of regional cooperation and integration is challenged by geopolitical tensions and security concerns within the Indian Ocean region, including border conflicts and maritime disputes.
- In Sri Lanka, the frequent reform of government administrations and policies poses the greatest threat. Investor confidence may be lost, leading to potential credit and investment risks. Political contentions and misinformation among the public have also resulted in negative perceptions of BRI investment. The lack of a nationally accepted policy framework is a critical problem for Sri Lanka.
- Connecting to the BRI is a mega-regional advancement that Sri Lanka needs to be prepared for. The present lack of a comprehensive policy framework, as well as a presiding decision-making body to address concerns, are major gaps that need to be addressed.
- The government needs to be cognisant of maintaining environmental sustainability for large-scale projects like the CIFC to ensure that the citizens' standard of living is not compromised.
- The perception that there is "easy money" to be obtained from China has led Sri Lanka into debt-driven development. Expert counsel on economic, social, and political factors should be sought before Sri Lanka obtains further investment in the future.

Suggested Readings:

Belt and Road Basics. (2017). *The Belt and Road Initiative - A road map to THE FUTURE*. [online] Available at: <https://beltandroad.hktdc.com/en/belt-and-road-basics> [Accessed 1 November 2017].

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Limaye, Y. (2017). *Sri Lanka: A country trapped in debt*. [online] BBC News. Available at: <http://www.bbc.com/news/business-40044113> [Accessed 1 November 2017].

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BBC News. (2017). *Sri Lanka signs port deal with China*. [online] Available at: <http://www.bbc.com/news/world-asia-40761732> [Accessed 1 November 2017].

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