

## **SRI LANKA HAS MARITIME EDGE – BUT FOR HOW LONG?**

By David Mason-Jones

Published in Asian Maritime Business, 2005.

<Stand first>

**Sri Lanka's maritime capacity now stands at a cross roads. Having led the way in providing a success model for economic development in South Asia, Sri Lanka opened a development lead over its close neighbours. But failure to maintain momentum at this stage could see the lead snatched away. David Mason-Jones reports.**

<text starts>

Although small in size and population compared with its giant neighbour, India, Sri Lanka has developed a disproportionate influence in South Asian economics and maritime development over the last thirty years.

**This influence has not been demonstrated in the gross power of its economy, nor in its raw numbers of harbours and shipping assets, but in the leadership it provided in how to lift out of the socialist malaise which very nearly wrecked itself and nearly the same for India.**

### **An ancient trading nation**

For more than two thousand years a culture based on sea trade has thrived on the island of Sri Lanka. Strategically placed in the Indian Ocean, the people of the island traded with Arab traders to the west, with people of the Indian peninsula, and Malays and Indonesian seafarers and the people from the area of Myanmar. Distant traders reached Sri Lanka from as far away as Greece and Rome in the west and from China, far to the east.

This island's exceptional position on the trade routes between Europe and Asia became a reason why, at different times, Portuguese, Dutch and English shipping interests established port facilities and bunkering services there. Most recently of course it was the British who extended their control over the entire island until its independence in 1948.

The island's exceptional position is also a reason why the Port of Colombo – on the direct line of access between the exit point for the Malacca Strait and the Middle East and Europe via the Suez Canal – has become a strategic shipping hub servicing South Asia. The Colombo hub services a range of smaller ports in Sri Lanka itself and, on a wider scale, to ports in India and as far away as Myanmar, Indonesia, South Africa and Australia. Colombo's nearest rivals in terms of its role as a hub is Singapore to the east and Mumbai to the west.

### **But why has Sri Lanka been a model to others?**

Immediately after the Second World War – when the world witnessed the powerful victory of the Soviet Union over Germany – socialism was seen as a panacea for the

economic problems of the world. In February, 1948, when Sri Lanka gained independence from Britain, many of the intellectuals in the country had been educated and influenced by the London School of Economics and leaned strongly towards a socialist model.

The same general mood existed in other countries in Asia, notably India and Burma, and also in China where the Communist government came to power in 1949.

Within the Sri Lankan context, the country moved towards government involvement in the economy and industries were nationalised with increasing impetus from 1956. Instead of retaining its traditional orientation as an outward looking international trading nation, Sri Lanka slid into a period of inward looking social development with protectionism, trade barriers, state owned enterprises and increasing government regulation. At the height of the mixed economy period, up to 70% of production in Sri Lanka was based in government factories.

The country's foreign reserves dwindled and some famous industries – such as the tea industry – were damaged beyond repair.

Sri Lanka's example to South Asia – and, indeed, many other nations in Asia – was to recognise the problem early and take definite steps to reverse it. In 1977, Sri Lanka effectively ended the momentum towards state control and the restoration of the personal enterprise and responsibility ethic. This was almost twenty years in advance of India's eventual recognition – forced upon the country by a financial crisis – that the socialist option was of dubious economic value to the nation.

It was during this period that Sri Lanka's Port of Colombo emerged in its premier position as a South Asian hub and left other ports in South India – such as Chennai and Cochin which could have been viable alternatives as hubs – completely behind in the development race.

Having opened this lead, the Port of Colombo, and the maritime capacity of Sri Lanka, gained an enormous economic lead in the region out of all proportion to its population or size as a nation. In some ways the island of Sri Lanka – and the Port of Colombo – became like the Singapore shipping hub.

Sri Lanka's example to South Asia was to show what can be achieved when a small nation identifies the most efficient economic system and pursues economic development from a firm foundation. The policy of liberal trade a liberal economy is now a bipartisan policy between both the government and the opposition.

### **Port of Colombo**

Although there has been sea trading activity Colombo for many centuries, the harbour first became known to Europeans in 1505 and, due to European maritime expansion at the time, this enables Colombo to be linked in to the trading routes with the rest of the world.

Following the Sri Lanka Government's decision in 1977 to turn back to the nations roots as an out ward looking sea trading nation, new and modern development was soon underway apace at Colombo. The first new terminal was commissioned in 1980,. This was followed by the first gantry crane in 1982, construction and commissioning of five Jaya Container Terminals between 1985 and 1996, deepening of main channel to 15m 1996, a further container terminal in 1997, oil berth commissioned 1997, and the commissioning of the South Asia Gateway terminal managed by P&O Ports in 1999. Colombo passed the 1.5 million annual TEU level in 1997.

So the pattern, following economic liberalisation, has been substantial and sustained.

### **Colombo tops 2 million annual TEU**

The Port of Colombo broke through the 2 million annual TEU level in November 2004 after having recorded a 13% lift in volume in the first ten months of the year. Final TEU figures for 2004 were just above 2.2 million annual TEUs.

The lift in volumes at Colombo is largely a result of a joint marketing strategy adopted by the Sri Lanka Ports authority (SLPA) and South Asia Gateway Terminal (SAGT). The joint effort promotes the idea of Colombo port as one entity with facilities not matched by any other port in the Indian Sub-Continent.

Colombo's location at the south western part of the island, and facing away from the direction of the recent tsunami, meant that the port facilities were substantially undamaged by the wave. This means that it is most likely that the TEU throughput of the port in 2005 is likely to exceed that of 2004 and climb towards 2.5 million annually.

So the growth pattern established by Sri Lanka's political decisions in 1977 is still being maintained and is still paying dividends to the nation.

### **Other Sri Lankan ports**

While Colombo is by far and away the largest port, there are a number of other smaller ports in the nation. These include Galle, on the south coast, Hambantota, on the south coast, Batticaloa on the east coast and Trincomalee at the half way point of the north east coast.

An interesting maritime service business operates from the Port of Galle to service ships transiting to and from the Malacca Strait. A short distance from Galle is Dondra Head and this is a rounding point for between 200 to 300 ships per day passing between the Suez Canal, India and the Middle East and the northern end of the Malacca Strait. The ships pass within 4nm of Dondra Head and the majority have not actually called at Colombo or any south Asian port. A small fleet of working craft facilitates crew changes at sea, spare parts delivery and emergency evacuation without the passing ship needing to stop. The Port of Galle is therefore intimately connected with world shipping although few of the ships it services ever stop there.

Interestingly, Trincomalee is actually a better natural port than Colombo which was partially open to the sea until 1912. Trincomalee is a natural haven fully protected from the open sea by the lie of land but it has suffered from the fact that it is not at the most convenient touch point on the island for shipping on the international sea routes. It has, therefore, lagged behind Colombo in its development for centuries.

### **Port development dreams**

Every nation seems to have some special development dream of its own such as the Australian dream to make the deserts bloom with agricultural production. Sri Lanka is the same only its particular dream seems to be to develop the secondary ports such as Galle and Trincomalee.

Over the years there have been huge efforts to bring this about – particularly in the case of the Port of Galle. But the hard facts about the development of international hub ports is that it is more effective to capitalise existing port infrastructures to a higher level of capacity than it is to develop a new port virtually from scratch.

The benefits of capitalising existing ports can be seen in the cases of Hong Kong and Singapore with their 18 million and 16 million TEU capacity respectively. Colombo has a long way to go before it reaches the capitalisation levels attained in Hong Kong or Singapore and so it is likely that investment dollars will be better spent in Colombo than in the smaller ports.

### **Infrastructure problems**

There lies one danger point on the port infrastructure story for Sri Lanka. That is in the development of the road and rail transport infrastructure to support the efficiency of the Port of Colombo. A harbour facility does not operate in isolation from the land base that comprises its hinterland and the land transport system makes up an integral part of the capacity of the port.

The development of the supporting land transport system has not been promoted in the past few decades with the same vision and effort with which the port infrastructure itself has been promoted. This is a point of weakness for Sri Lanka's future maritime development and needs to be addressed with improved investment in the very near term.

### **Civil strife**

Another point of weakness for the overall development of Sri Lanka's potential is in the fact that the 20 year civil strife in the north of the island has not yet been resolved. In terms of the development of ports, this issue directly affects the Port of Trincomalee because it is in the north west of the country and it is the port the Tamil Tigers have identified as being the one they would like as their premier port if they were to achieve any sense of autonomy or independence.

But civil strife – even when it exists at such a low level as it does now – is still a big turn off to international investors. This, therefore, indirectly affects the development of

maritime infrastructure because it is an inhibitor for the flow of investment capital or development aid dollars.

A major effort of the Sri Lanka government needs to be directed at achieving a joint mechanism with the rebels for the management of overseas aid and investment money in the country. If the civil strife just lingers forever, it will be a constant minor annual drag on the economy but its cumulative effects will be enormous.

### **Tsunami effects**

The December 2004 tsunami caused catastrophic loss of life and property on the southern and eastern coasts and this includes the ports of Galle, Hambantota, Batticaloa and the vast number of fishing villages spread along those coasts. After five months, these ports have been substantially restored to their prior shipping capacities.

Due its protected nature Trincomalee on the north East coast escaped catastrophic damage and, as already mentioned, Colombo escaped significant damage due to its geographical position facing away from the direction of the tsunami.

### **Competition from India**

The long term problem the Sri Lankans may have on their hands is the competition for shipping likely to be developed by the Indian ports on the southern peninsula of India. Having lifted from its developmental problems of the post war period, India is now in an expansionary phase and this includes its maritime ambitions.

Indian developments which are likely to create competition for Sri Lanka include development of the Port of Chennai, development of the Port of Cochin, and the dredging of an ocean channel between India and Sri Lanka. All of these developments, together with India's confidence and economic growth, could mean that business – even the role of shipping hub – could be spirited away from Sri Lanka and Colombo over a period as short as a decade or so.

If Sri Lanka wants to hold its preeminent position, it needs to play mental chess with the Indians and counter the mainland moves for trade dominance. In this, Sri Lanka will face a challenge not unlike the challenge faced by Hong Kong as mainland competition from Guangzhou and Shanghai hots up.

### **Conclusion**

Lying directly on the trade routes between Europe and East Asia, Sri Lanka, with its premier port of Colombo, has been in a great position to establish itself as the south Asian shipping hub. This has been an ancient role for the country and one which it rediscovered with vigour after the political decisions of 1977.

No commercial advantage, however, lasts forever and Sri Lanka is faced with a period of intense competition from its near neighbour. Actions taken now to maintain its infrastructure lead will keep the nation sharing in the benefits of its status as a regional hub. <text ends>

## <Side boxes>

<Side box 1 starts>

### **Sri Lanka at a glance**

Sovereignty :	Republic, The Democratic Socialist Republic of Sri Lanka
Government leaders :	President: Chandrika Bandaranaike KUMARATUNGA Prime Minister: Mahinda RAJAPAKSE
	Note: The president is considered both the chief of state and head of government.
Government form :	Democracy
Geographical description :	Island nation. Land area 65,610 sq km. Coastline 1340 km.
Official Language :	Sinhala, official and national language, Tamil, national language. English is spoken competently by about 10% of the population
Main city :	Colombo, but Sri Jayewardenepura Kotte is the legislative capital
National population :	19.9 million
GDP :	USD\$73 million
GDP Composition	
Agriculture	19%
Industry	26.3%
Services	53.8%
Labour force composition	
Labour force:	7.7 million
Agriculture	38%
Industry	17%
Services	45%
Exports – value	USD\$5.3 billion
Main export partners	US 34.6%, UK 12.5%, India 4.8%, Germany 4.5%
Main exports	Textiles and apparel, tea, diamonds, coconut products, petroleum products
Imports – value	USD\$6.6 billion
Main import partners	India 16.1%, Hong Kong 8.4%, Singapore 7.8%, Japan 6.7%, China 4.9%, South Korea 4.2%, Taiwan 4.2%, UK 4.1%, Malaysia 4%
Main imports	Textiles, mineral products, petroleum, foodstuffs, machinery and equipment

<Side box 1 ends>

<Side box 2 starts>

## **Port of Colombo: facilities and plans**

□  
└

Current facilities

7 Container Berths.

3 Feeder Berths.

15M Dredged Depth.

23 Quay Cranes, which include 12 Super Post Panamax Cranes.

Capacity - 2.5 Million TEU's.

### **Development plans**

A new South Harbor adjacent to the Port of Colombo has been planned in order to meet the increasing need for greater capacity. A feasibility study has already been completed and handed over to the Sri Lankan government for this project, the 1st stage of which is due to commence within the next two years and be completed within a period of 5 years.

This facility which is designed for 12 deep draught berths on completion will accommodate the latest generation of container vessels as well as those which will enter service in the near future. The new South Harbor will be able to comfortably meet the projected demands placed on the Port of Colombo as the premier hub seaport in the region.

<Side box 2 ends>

<Side box 3 starts>

### **The competition Colombo faces**

Sri Lanka will experience strong Indian competition in the development of Indian terminals over the coming years. On 13<sup>th</sup> January 2005, the Indian cabinet committee on economic affairs approved the International Container Transshipment Terminal (ICTT) project at Cochin Port on the south west Indian coast.

The Port Trust will provide road and rail connectivity to the ICTT project site, obtain environmental clearance for the project and get the project site declared as Special Economic Zone (SEZ). Port Trust will also have to deepen the channel so as to receive ships of large size. The Ministry of Commerce and Industry has already agreed to the declaration of the ICTT site as a Special Economic Zone.

The Prime Minister laid the foundation stone for the project on February 16, 2005. On completion, the terminal will have capacity to handle 3 million TEUs.

On 31<sup>st</sup> March 2005, the Indian government gave in-principal approval for construction of a second container terminal at Chennai Port on the eastern coast of India. This is just to the north of Sri Lanka. The Indian government also approved construction of a second container terminal at Tuticorin Port on the southern tip of India immediately opposite Sri Lanka.

<Side box 3 ends>

