

# POLICY BRIEF

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## Development of Sri Lanka's East Container Terminal Port: Japan & India's Regional Cooperation in South Asia Shaping Up

*Dr. Monika Chansoria*

Signing the *Japan-India Vision Statement* in Tokyo on 29 October 2018, the Prime Ministers of Japan and India reviewed cooperation on development of connectivity via quality infrastructure and capacity-building carried out bilaterally, as well as, with other partners. More so, the need to do this in an open, transparent and non-exclusive manner based on international standards, responsible debt financing practices, and in alignment with local economic and development strategies and priorities was highlighted.<sup>1</sup> The synergy finds embodiment in collaborative projects between Japan and India in the Indo-Pacific region, especially in Sri Lanka, Myanmar, Bangladesh, and Africa. In slightly over six months since this statement, Sri Lanka recently announced on 28 May 2019, its decision of entering into a trilateral partnership with India and Japan to develop a deep-sea container terminal. The state-run Sri Lanka Ports Authority (SLPA) said a Memorandum of Cooperation (MOC) had been signed between the three countries to jointly develop the East Container Terminal (ECT) of the Colombo Port next to a \$500-million Chinese-run container jetty in Colombo harbor.

The East container terminal is located at the southern part of the newly expanded Port of Colombo. India and Japan will likely deepen and develop this facility to allow large container ships to enter seamlessly. The SLPA further said it will retain 100 percent ownership of the ECT while all operations will be owned jointly. Sri Lanka will retain 51 percent while joint venture partners India and Japan, 49 percent stake. While officials from the three countries are expected to formulate the scale and form of the project by over the next few months, corporate partners are also expected to be brought on board in the project that shall be financed majorly by Japanese Official Development Assistance (ODA). Work on this trilateral

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<sup>1</sup> *Japan-India Vision Statement*, Tokyo, October 29, 2018.

project is likely to begin by March 2020 and is projected to increase the port’s container volume and enhance marine transportation in and around South Asia. According to the SLPA, the decision demonstrates “Sri Lanka’s ability to maintain and further its national interests while cooperating with international partners” and contributes to advancing the regional prosperity and stability of global trading networks.

***East Container Terminal, Colombo Port***

Joint development of the Port of Colombo underscores the fact that the Indian Ocean is becoming more integral to global trade. According to the SLPA, the trans-shipment Colombo hub handles 70 percent of containers that are Indian export-import cargo, which explains Indian interests in investing in the East Container Terminal. At present, the Colombo Port handles over five million containers a year and is the second fastest growing port with a growth rate of 10.6 percent as per 2016 records. The Port of Colombo faces marine shipping routes connecting Europe and Asia and is the largest Sri Lankan port through which 90 percent of the country’s seaborne goods pass, connecting Europe, the Middle East, Africa and Asia. It witnessed traffic of 6.21 million twenty-foot equivalent units in 2017, making it Southwest Asia’s busiest port.<sup>2</sup> The project holds high importance in the region given that Japan’s primary maritime routes run through the Indian Ocean, and thus, improved capacity of the region’s ports will resultantly improve the security of tankers and commercial ships.<sup>3</sup> Between 2011 and 2015 itself, vessels of the Japanese Maritime Self Defence Force visited Sri Lankan ports on 22 occasions. The Colombo Port is considered the most commercially viable project and has already attracted around \$1.4

billion in investment from China under the Belt and Road Initiative.<sup>4</sup>

Sri Lanka had planned to develop the three terminals – South, West, and East – with a depth of 18 meters that would allow larger container ships to operate at the port. India-Japan, China-Qatar-Iran, along with the Sri Lanka Ports Authority had expressed interest to develop the project as the deepest Container Terminal at the Port of Colombo, helping to berth massive ships, container carriers, and oil tankers. In recent years its container handling volume has risen steeply, particularly for trans-shipment (transferring containers between ships) cargo. Colombo is highly regarded by shipping companies as an international port with the most modern container handling facilities in South Asia with demands for container handling at Colombo continually growing. However, it is proving challenging for the existing container handling facilities to meet any additional demands. Expansion of the facilities therefore is urgently required. A series of ODA loan projects for the Port of Colombo, concentrating on container handling facilities, have been implemented in the past.<sup>5</sup>

Colombo’s old harbor was developed by the British and by 2002 it became capable of handling ships of length 500 ft. Despite that, the harbor got dredged periodically, depth reaching maximum of 12 m, and was insufficient to receive container ships. To meet the growing demands of increasing cargo traffic, the Sri Lanka Ports Authority proposed the Colombo Port Expansion Project in 2005. The project proposed a 5.14 km main breakwater, secondary breakwater of 1.65 km along with basic infrastructure. The harbor would comprise of three terminals, South, East and West, each

2 “Japan and India to develop Colombo port, Countering Belt and Road” *Nikkei Asian Review*, May 20, 2019.

3 Ibid.

4 Ibid.

5 Sri Lanka Port of Colombo Expansion Project (IV): Port of Colombo Extension Project (I) ~ (IV) *Report by Japan International Cooperation Agency*, March 1999.

1200 m long, capable of accommodating three alongside berths, allowing total of nine deep-water berths.<sup>6</sup> Upgrading the East Terminal in particular has been through its share of ups and downs, with attempted development on since 2013. In the master plan of Colombo Port Expansion Project, the East Container Terminal has a 1200 m long Quay wall, alongside water depth of 18 m berthing of three mega ships, and a yard capacity of 2.4 million TEUs.<sup>7</sup>

The SLPA has completed a 440 m single berth in the first phase of the ECT development plan to cater for the shortfall in the capacity of container handling in the port of Colombo. This consists of a 440 m quay wall alongside a water depth of 18 m which was completed in May 2015. In February 2016, the cabinet decided to invite expressions of interest and business proposals from interested parties for the development of the East Container Terminal. The Ports Authority called for Expressions of Interest for the \$400 million project in June 2016, in order to complete the balance section of part built ECT. The bids closed in July 2016.<sup>8</sup> However, in December 2016 Ports Minister Arjuna Ranatunga cancelled the tenders as committees overseeing the project sought to introduce new conditions in the tender process. The revised procedure disqualified five international consortia and two single bidders that had submitted expressions of interest. In May 2017 SLPA was brought under new Minister, Mahinda Samarasinghe who stated that “During the last two years SLPA has lost approximately Rs. 4 billion due to the delay in completing the ECT. The Ports Authority could have earned this money easily ... we have wasted

two years in not developing the East Terminal.”<sup>9</sup> Thereafter, in August 2017, President Sirisena informed that the ECT will not be privatized but will be run by the Sri Lanka Ports Authority, and continued, “We are committed not to hand over the Eastern Terminal to any party because such an action will lead to close the Sri Lanka Port Authority in another 10 years.”<sup>10</sup>

Later, according to a tripartite agreement entered in July 2018 by the three main terminal operators at the Port of Colombo – South Asia Gateway Terminal, Jaye Container Terminal and Colombo International Container Terminal – they are to function as a single unit mainly in respect of container handling, trans-shipment ship handling and related activities. According to the *Alphaliner Monthly* 2018, the Port of Colombo was ranked as the world’s fastest growing port among the top 30 container ports during the first half of 2018. In container handling, the Colombo Port recorded a 15.6 percent growth for the first half of 2018. However, the port has reached its capacity limit and is incapable to increase container handling unless the East Terminal is brought into action.<sup>11</sup>

***Port of Colombo Expansion Project: A History***

The port was developed around 1875 as a shipping point for tea and spices under the British colonial empire, later functioning as a midway point for routes to ports along the eastern coast of India. In the 1980s, construction began on container terminals and the port acquired cargo-loading machinery through international yen loans that were facilitated

6 Tudor Wijenayake, “East Container Terminal Blunder...” *Daily Financial Times Sri Lanka*, September 18, 2018.

7 Ibid.

8 Ibid.

9 Ibid.

10 Ibid.

11 Alphaliner figures cited in “Colombo Port: No.1 in Alphaliner’s ranking,” *Container News*, September 10, 2018.

by plans drafted with technological assistance from Japan.<sup>12</sup> The port was able to make great strides as a container port, partially due to the trend toward the use of containers in the marine shipping industry, and as of 2015 had a container cargo carrying capacity of 5.2 million TEU, the 27th highest in the world.<sup>13</sup>

The rapid shift toward the use of containers in international marine shipping propelled Colombo, the SLPA, and Japan to develop container terminals of the port and serve a key role as southern Asia’s principal regional port. According to a study on the Port of Colombo Development Project:<sup>14</sup>

- Though Japan’s economic support of Sri Lanka began with yen loans in 1958, more than 10 percent of those loans to Sri Lanka have been allocated to the development of the Port of Colombo, and hence, this project is a core facet of economic support for Colombo.
- No other single harbor has received as much economic support from Japan as Colombo has, and, with the foresight of the container revolution beginning in the late 1970s among advanced nations’ ports, this port has developed into a container transshipment port for harbors along the eastern coast of India.
- Many Japanese firms had participated in the yen loan operations for the Port of Colombo during its consulting and implementation stage, when Japan’s ODA program was just starting and this served as the basis for the subsequent overseas expansion.

At the time when Ceylon (present day Sri Lanka) gained independence after the Second World War in 1948, the three piers named Queen Elizabeth Quay (QEQ), Delft Quay (DQ), and Prince Vijaya Quay (PVQ) were constructed on the inner side of seawalls from 1950 to 1956. These quays were built in order to shift cargo handling from the system of barges shipping between vessels anchored offshore to a system of vessels directly mooring in the port and on-loading and off-loading directly.<sup>15</sup> Following the assassination of then Prime Minister Bandaranaike in 1959, the political realities of Sri Lanka resulted in virtually no investments being made in developing the harbor. Few years later, following the establishment of Sri Lanka as a republic in 1972, it took nearly a decade to develop 300 meters of quay. Even at that time, the finished quay did not have the cargo handling equipment necessary for transferring containers.<sup>16</sup> After assuming office in February 1978, President Jayawardene pumped greater political capital for the economic development and resultantly the Port of Colombo’s cargo capacity began to grow.

### ***Japan’s Assistance to Sri Lanka***

Ever since Japan established diplomatic relations with Sri Lanka (then Ceylon) in 1952, it has partnered Sri Lanka’s socio-economic development, focusing on priority areas of promoting quality infrastructure and growth. Before China taking over in 2008, Japan was the largest donor to Sri Lanka providing grants, concessionary loans, and technical assistance including in the Maritime Safety Capability Improvement program for the Sri Lankan Coast Guard. The geo-strategic vitality of Sri Lanka placed at the center of the Indian Ocean is

12 “Port of Colombo Development Project,” Paper presented at the JSCE International Infrastructure Archives Working Group Meeting, Nihon University, Tokyo.

13 Cited in *Containerization International*, March 2016.

14 “Port of Colombo Development Project,” n. 12.

15 Ibid.

16 Ibid.

well-known in so far as securing sea-lanes and consolidating connectivity of ports in South Asia to the Gulf and East Africa. Sri Lanka’s internal conflict ended in 2009, and by December 2010, Japan provided around 1,100 billion Japanese Yen (approximately Rs. 1,400 billion) in assistance to Sri Lanka under its various funding schemes in conflict-affected areas.<sup>17</sup> The assistance has been provided through several funding schemes such as Grant Assistance, Technical Cooperation, and Yen Loan scheme mainly executed by the Japan International Cooperation Agency (JICA). The primary and inter-related focus areas of Japan’s assistance to Sri Lanka are peace and reconstruction; medium and long-term vision for development; and socio-economic infrastructure.<sup>18</sup> The recent and major assistance projects for socio-economic infrastructure in the transport and energy sectors, especially in the Northern and the Eastern Provinces are aimed at promoting sustaining peace and reconciliation. These include:<sup>19</sup>

- Construction of Vavuniya- Kilinochchi Transmission Line
- Construction of the new Mannar Bridge and improvement of the Causeway
- Construction of Upper Kotmale Hydro Power
- Development of Solar Electric Power Generation in Hambantota
- Construction of Southern Highway from Kottawa to Kurundugahahetekma
- Construction of the first section of the Outer Circular Highway in the outskirts of Colombo

Besides, very recently, Japan has inked providing a loan to build the \$1.8 billion project on Sri Lanka’s first light railway system in Colombo. The loan will be granted in six stages until 2024 and will begin in 2019. An agreement to release the first instalment of \$260 million (30 billion yen) was signed in March 2019 between the Japan International Cooperation Agency, which coordinates Japan’s official development assistance, and Sri Lanka’s finance ministry.<sup>20</sup> The proposed rail line will run for 16 kilometers on elevated viaducts to minimize land acquisition. The agency said the financing is being provided under an economic partnership with interest rates of 0.1 percent and a 40-year repayment period that includes a 12-year grace period.<sup>21</sup> In 2017, Sri Lanka leased out a Chinese-built seaport for 99 years in a bid to recover from the heavy burden of repaying a loan obtained to build the facility.

Prior to the G-20 Summit in Osaka hosted by Japan in June, there were reports that the Abe government was considering proposing a set of rules for infrastructure investment in developing countries. The proposed rules would increase transparency of contracts, responsible financing, and give due consideration to the debt repayment capacity of countries receiving investments. In addition, there has been anticipation in Tokyo to adopt the principle of ensuring “openness” of facilities without imposing restrictions on usage and economic efficiency by making infrastructure durable enough for long-term use.<sup>22</sup>

***India’s Assistance to Sri Lanka***

India and Sri Lanka’s economic and

17 “Overview of Japan’s Economic Cooperation to Sri Lanka,” *Factsheet*, Embassy of Japan in Sri Lanka, October 17, 2018.

18 Ibid.

19 Ibid.

20 “Japan agrees to provide loan for Sri Lanka’s light-rail line,” *The Asahi Shimbun*, March 13, 2019.

21 Ibid.

22 “With China in mind, Japan eyes new infrastructure investment rules for G20,” *The Japan Times*, April 29, 2019.

commercial partnership is vibrant, with bilateral trade growing rapidly in the last decade. Sri Lanka is India’s largest trade partner in South Asia and India is Sri Lanka’s largest trade partner globally. Much of the impetus for the current level of India’s economic interaction stemmed from the signing and entry into force of the Free Trade Agreement (FTA) in 1998 and 2000 respectively. Bilateral trade between India and Sri Lanka amounted to USD \$4.93 billion in 2018. In addition to being Sri Lanka’s largest trade partner, India is also one of the largest contributors to Foreign Direct Investment in Sri Lanka. Interestingly, over 80 percent of Indian exports to Sri Lanka are outside the list of products covered by the FTA, thereby indicating their overall competitiveness in the Sri Lankan market.<sup>23</sup>

Following the FTA, the two Governments emboldened by the positive outcomes and success of the FTA, felt that more action was required to unleash the full potential of our bilateral economic relations. Accordingly, during the visit of Prime Minister of Sri Lanka to India in June 2002, India and Sri Lanka decided to set up a Joint Study Group to explore possibilities of starting negotiations for a Comprehensive Economic Partnership Agreement (CEPA) modeled on the India-Singapore CECA. Although CEPA negotiations were completed, the agreement was not signed. To further broaden the scope of FTA and to strengthen the economic, trade, investment and technology cooperation between India and Sri Lanka, an Economic and Technology Co-operation Agreement (ETCA) was proposed and negotiations are under way.<sup>24</sup> The ETCA covers both goods and services.

As far as the Concessional Financing Projects in Sri Lanka are concerned, India has provided concessional financing of over 1.8 billion dollars to Sri Lanka through Line of Credit (LoC) Projects funded by EXIM Bank of India. Out of this over USD 1.2 billion has been committed to the railway sector in Sri Lanka.<sup>25</sup> A Line of Credit of USD 150 million for export of petroleum products from India to Sri Lanka was given in 2004. LoC has been fully disbursed and fully repaid by GoSL by 2012. In addition, a Line of Credit of USD 167.40 million was provided for upgradation of Coastal Railway Track which also included the upgradation of tsunami-affected Southern Railway line. The upgradation of the 118 km coastal railway track from Kalutara to Matara was undertaken under two LoCs.<sup>26</sup>

- LoC amounting to USD 100 million signed in July 2008
- LoC amounting to USD 67.40 million signed in March 2010

Besides, the Line of Credit facility has been used for projects including upgradation of Northern Railway and track-laying in the following sector areas:<sup>27</sup>

- From Omanthai to Pallai
- Madhu Church Tallaimannar sector
- Medawachchiya-Madhu Railway line
- Pallai-Kankesanthurai sector

Additionally, the Line of credit for USD 45.27 million for rehabilitation of Kankesanthurai Harbor (KKS) was signed on 10 January 2018.

23 “India-Sri Lanka Economic and Trade Engagement” *Factsheet*, High Commission of India, Colombo, Sri Lanka, available at [https://hccolombo.gov.in/Economic\\_Trade\\_Engagement](https://hccolombo.gov.in/Economic_Trade_Engagement)

24 Ibid.

25 Ibid.

26 Ibid.

27 Ibid.

Four out of the six phases of the rehabilitation of KKS port have been completed under India’s grant assistance. The current LoC is for the remaining two phases involving works relating to installation of port infrastructure facilities. After completion of this project, the KKS Harbor could be fully used as a commercial port, facilitating movement of cargo between southern India and Sri Lanka.<sup>28</sup> Moreover, the Line of Credit of USD 100 million for Solar Projects in Sri Lanka was announced for Sri Lanka during visit of President of Sri Lanka to New Delhi in March 2018 during the founding conference of the International Solar Alliance. The LoC Agreement is yet to be signed. Sri Lanka has signed International Solar Alliance Agreement on 31 January 2018. As far as the Buyer’s Credit Projects are concerned, the Indian-Sri Lankan partnership is working on projects including: Greater Dambulla Water Supply Project; Aluthgama, Muthugama Water Supply Project; and Pothuhera Water Supply Project.<sup>29</sup>

**Conclusion**

Asia’s present geopolitical and geostrategic setting makes it nearly obligatory for two of its most prominent and responsible powers, India and Japan, to step forward and stabilize the balance of power and ensure lasting security within the region. In Africa, the Indo-Japanese proposed Asia-Africa Growth Corridor holds promise for collaborative progress and benefits. In South Asia, the decision to jointly develop the East Container Terminal of the Colombo Port is a vital step in the said direction. The potential for New Delhi and Tokyo to establish a stronger collective footprint in South Asia and Africa is huge, and falls in line with the vision to create a free and open Indo-Pacific region linking the African continent with India and countries in South, Southeast Asia, and Oceania via sea corridors.

Aimed largely to propel growth and investment, the infrastructure projects are slated to build institutional, industrial, and transport corridors, which shall be a boon for better integration of Asian and African economies in the long term. Japan’s expertise in providing quality infrastructure and state-of-the-art technology will be a clincher in this case, which will be well-matched by India’s long experience of working inside Sri Lanka. Although it is still a nascent stage for the Japan-India-Sri Lanka trilateral, the classic interpretation of recent developments is perhaps the realization by Tokyo and New Delhi to propel Colombo as an important partner in the regional maritime paradigm. In this reference a maritime communication network system in Colombo would be of immense utility vis-à-vis the Indian Ocean. It perhaps is the apprehension of being outmaneuvered by China and that of its strategic strides that places the theories of functional integration in the region to test. These initiatives are just the beginning of newer maritime frameworks that are likely to emerge in the Indo-Pacific, where players like Japan and India find strategic reason to have each other’s back regionally.

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28 Ibid.

29 Ibid.