Sri Lankan government lifts suspension on China-funded Port City project

Vilani Peiris
28 December 2015

Desperate to attract investment funds, the Sri Lankan government has lifted its suspension of the China-funded Colombo Port City (CPC) project. Finance Minister Ravi Karunanayake told the *South China Morning Post*: "We have given all the necessary clearances. Now it is up to the investors to sort out the minor details."

According to officials of the Chinese state-controlled China Communications Construction Company (CCCC), which is financing the $US1.4 billion project, the CPC is expected to restart around February, once final details are worked out.

Soon after taking office in January, President Maithripala Sirisena's government suspended the CPC and several other Chinese-funded projects launched by the previous administration of Mahinda Rajapakse.

Sirisena's government claimed there were "irregularities," "corruption" and "absence of proper environmental impact assessments," particularly in relation to the CPC. But the real reason was that the government shifted Colombo's foreign policy away from Beijing, with whom Rajapakse developed close ties, and toward Washington and its strategic partner India.

Sirisena's government has now also lifted the suspension of the $104.3 million Colombo Lotus Tower project, another Chinese investment, although without any compensation for the delay in construction. Telecommunication Regulatory Commission (TRC) director general Sunil S. Sirisena said negotiations had produced a new extension to the agreement, with the project to be completed by October 2017.

Facing an economic crisis because of the global slowdown, the cash-strapped government decided to proceed with the Chinese projects. Karunanayake told the *Post*: "I urge China to put the acrimony of the past behind us and come and help us by adjusting the terms of the loans to make them more viable."

Although the government had cited absence of a proper Environmental Impact Assessment as a major reason for suspending the CPC project, Karunanayake said: "On our part, the government is happy with the environmental impact assessment report for the project."

Sri Lanka is estimated to have received up to $5 billion from China in aid, soft loans and grants during the past six years. Nearly 70 percent of the infrastructure projects in the country have been funded by China and built by Chinese companies.

According to Palitha Ekanayake, a former director-general at the ministry of rural economy, the country's foreign debt rose from 36 percent of gross domestic product (GDP) in 2010 to 65 percent of GDP by the end of 2013 and was estimated to rise to 94 percent this year. He added: "Debt installment and interest obligations already exceed government revenue. That means we have to borrow to square existing loans."

Foreign reserves fell from $9.1 billion in August last year to $6.8 billion by the end of this September. The Sri Lankan rupee has lost about 7.5 percent of its value this year and foreign investors are selling down rupee bonds.

The CPC project, the largest single investment in Sri Lanka, is strategically important for China. It is part of Beijing's Maritime Silk Road, a plan to secure an access to crucial supplies of energy and raw materials via the Indian and Pacific Oceans, in the face of US aggressive moves in the region.

US and its allies, particularly India, were hostile to Rajapakse's warm relations with China. Having failed to pressure him to break these ties, they orchestrated his replacement by Sirisena in the January 8 presidential

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election. The US and India especially opposed the CPC project because they considered it a challenge to their dominance of the Indian Ocean region. India expressed its concerns publicly when two Chinese submarines called into Colombo last year and the CPC project was regarded as the final straw in India's relations with Rajapakse.

The proposed CPC is a 230-hectare complex, with hotels, apartments and office buildings, to be built on landfill near the Colombo harbour seafront. According to the original agreement, the CCCC would control 108 hectares, including 20 hectares on a freehold basis and the remainder on a 99-year lease. Sri Lanka would own the other 125 hectares.

While clearing the CPC project, Sirisena's government has proposed to change the provision for "freehold land" to "leasehold land," so as not to grant any permanent land ownership to the Chinese company. Karunanayake said the government had asked CCCC to agree to that amendment. "This is in accordance with the law of the land. Foreigners can't own land in this country and everyone has to abide by it," he said.

Responding to a question in parliament last Monday, Prime Minister Ranil Wickremesinghe reaffirmed the change of conditions. He said: "Land could have been leased to the foreign firm or sold on title but we have not given ownership to foreign firms."

Indicating that his government would keep its options open to place further conditions on the project, Wickremesinghe added: "We need to look at the environmental impact assessment report first. We do not want any harm to come to the Sri Lankan coast. If such an impact exists then we can amend the proposal."

China is keen to resume its investment projects in Sri Lanka to help counter growing US provocations against it in the Asia-Pacific region. Beijing has hinted at its desire to proceed with the CPC project.

China's South Asian Division Counselor and Director Chen Feng told visiting Sri Lankan journalists that the Chinese government welcomed the Sri Lankan decision to resume the project. He said: "We think the Colombo Port City and the Hambantota Port [in southern Sri Lanka, also funded by China] are important for the development of Sri Lanka, which is a very important part of the Silk Route. China is developing fast and we want our neighbours, including Sri Lanka, to benefit from this."

When asked whether Chinese companies were sceptical about investing in Sri Lanka after the CPC's suspension, Chen said the Chinese government would encourage firms to invest in Sri Lanka and to look for more opportunities there.

Beijing's response to Colombo's demands for changed terms of the agreement is yet to be made known, however. A senior Chinese official told the *South China Morning P ost* that negotiations on the leasehold condition would start in two weeks. He accused India of "pressuring the government not to give us freehold land." This indicates that the geo-strategic tensions surrounding the CPC and other Chinese projects are far from resolved.

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