

China in South Asia - South Asia in China: OBOR and the Sri Lankan Experience

International Conference 2017



Regional Centre for Strategic Studies

PAPER TITLE

Potential Economic Benefits of Belt and Road Initiative (BRI) And Opportunities for Sri Lanka

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ABBREVIATIONS

ADB	- Asian Development Bank
ASEAN	- Association of South East Asian Economic Nations
AIIB	- Asian Infrastructure Investment Bank
APAC	- Asia and Pacific Countries
BFI	- Banking and Financial Institutions
BOI	- Board of Investments
BRI	- Belt and Road Initiative
BRICS	- Brazil, Russia, India, China and South Africa
BRIPCs	- BRI participating countries
CBSL	- Central Bank of Sri Lanka
CDB	- China Development Bank
CICT	- Colombo International Container Terminal
CIFZ	- Colombo International Financial Centre
CMPH	- China Merchants Port Holdings Ltd
CPCP	- Colombo Port City Project
DBS	- Development Bank of Singapore
EDB	- Export Development Board
EFF	- Extended Fund Facility (EFF)
EXIMB	- Export-Import Bank of China
FinTech	- Financial Technology Companies
GDP	- Gross Domestic Product
GOC	- Government of China
GOR	- Gross Official Reserves
GOSL	- Government of Sri Lanka
HIPG	- Hambantota International Port Group
HIPS	- Hambantota International Port Services
ISBs	- International Sovereign Bonds
IO	- Indian Ocean
IPS	- Institute of Policy Studies
IPZ	- Industrial promotion zone
IT	- Information Technology
MSR	- Maritime Silk Road
NGOs	- Non-Governmental Organizations
NSREB	- New Silk Road Economic Belt
PCs	- Participating Countries
SA	- South Asia
SCS	- South China Sea
SEA	- South East Asia
SMEs	- Small and Medium Enterprises
SLPA	- Sri Lanka Port Authority
SRF	- Silk Road Fund
EEZ	- Exclusive Economic Zone

Potential Economic Benefits of Belt and Road Initiative (BRI) And Opportunities for Sri Lanka

Dr Ranee Jayamaha

The Abstract

The technology innovation, lower transaction and market entry costs and high government investment facilitated the People's Republic of China's (China) rapid economic growth during the past three decades. This growth strategy has run its course prompting a transition towards a more balanced and sustainable approach with an increased focus on regional and global integration. The BRI composed of the Land-Based New Silk Road Economic Belt (NSREB) and the Ocean-Based 21st Century Maritime Silk Road (MSR) is the main driver of this transition. This paper discusses the vision, scope and the goals of China's BRI and potential economic benefits to wider Asia, especially to Sri Lanka. The discussion and analysis rely on secondary sources of data and estimates. The paper argues that BRI will positively impact on Sri Lanka's economic development through: regional connectivity via ports, airports, roads, transmission towers etc.; increased foreign investments into the country; easy access to new export markets; exploration of maritime resources in the exclusive economic zone; and participation in the digital revolution in financial services. However, the downside risks of BRI can cause geo-political tensions requiring openness and diplomacy by all stakeholders. China – Sri Lanka relations are based on long standing mutual trust, cooperation and friendship. Nevertheless, to reap sustainable benefits from BRI, the paper recommends that Sri Lanka should have a consistent policy framework comprising a supportive legal and regulatory structure, strong project management and transparent procurement procedure.

Introduction and Background

China's economy grew at an unsustainably rapid rate during the past three decades, resulting from technology developments, lowering of transaction and market entry costs and high government investment reaching 49% of GDP. This growth strategy started

raising sustainability issues, while the innovative private sector companies experienced difficulties to find new markets for their products. This shifting environment has prompted a transition toward a more balanced economic approach—a slower, more sustainable “new normal”—with an increased focus on global integration. The BRI is a pillar of this change¹ aiming at alleviating China’s domestic economic slowdown, building infrastructure to connect Asia for trading and strengthening China’s regional influence by utilizing the overcapacity of Chinese firms. Prior to BRI, China declared “innovation and entrepreneurship” as a national strategy and irrespective of size, almost all companies embraced innovation raising productivity to an unprecedented level. The increased productivity contributed to a steady increase in exports, making export earnings a major component of China’s foreign exchange reserves.²

BRI encompasses over 62% of the world population, over 34% of world’s merchandise trade, and 31% of the world’s GDP. In 2016, China’s trade with BRI participating countries (BRIPCs) amounted to \$955bn or 26% of China’s total trade. China’s outbound direct investment in PCs stood at \$14.5bn with cumulative investment exceeding \$18 bn. Chinese companies have set up 56 economic and trade zones in 20 BRI PCs while, Chinese economic activities and investments have generated about \$ 1.1 bn in taxes with 180,000 jobs for BRI PCs.³

BRI plans to promote economic engagement and investment along two main routes. The NSREB, will run westward overland through Central Asia and onward to Europe focusing on bringing together China, Central Asia, Russia and Europe (the Baltic); linking China with the Persian Gulf and the Mediterranean Sea through Central and West Asia; and connecting China with Southeast Asia (SEA), South Asia (SA) and the Indian Ocean (IO). The MSR, loops South and Westward by sea towards Europe, with proposed stops in SEA, SA and Africa. The MSR is designed to start from China’s East coast to Europe through the South China Sea (SCS) and the IO in one route, and from China’s East coast through the SCS to the South Pacific in the other ^[2]. NSREB was unveiled by President Xi Jinping in

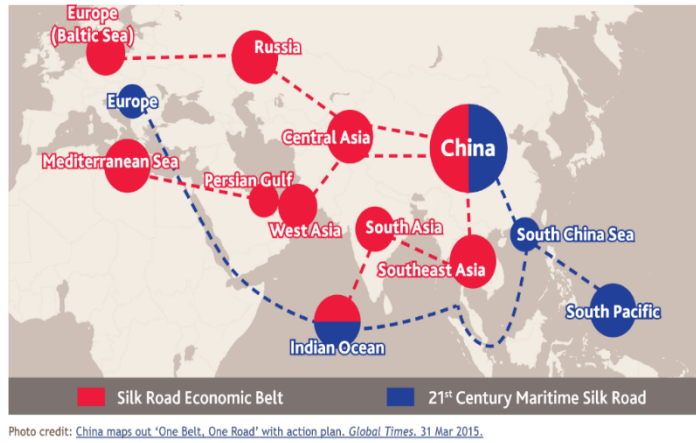
¹Kananga Haggai (2016,) one belt One Road Strategy in China and Economic Development in Concerning Countries,-World Journal of Social Sciences and Humanities, Vol 2, No 1.

² I am extremely grateful to Mr Dhammike Amerasinghe, Advisor to the Minister of Special Assignments for reviewing this article and providing valuable editorial comments

³ Xi, Jinping, (2017) , Opening ceremony of the International Conference Summit Forum. May

Kazakhstan on 7, September, 2013. The MSR was announced before the Indonesian Parliament on October 3, 2013.

Figure 1: The Land-based Silk Road Economic Belt and the Sea-Based 21st Century Maritime Silk Route



Source: World Journal of Social Sciences d Humanities, Vol, Science, pub.com/wish/2/1/2,

The Vision, Scope and Main Goals

BRI envisions the creation of a highly integrated, cooperative, and mutually beneficial set of maritime and land-based economic corridors, connecting the vibrant East Asia economic circle at one end and the developed European economic circle at the other, and encompassing countries with huge potential for economic development. The scope and content of BRI are wide and its goals are quite ambitious. BRI aims to promote five major goals among its constituent nation states: (I) policy coordination, (ii) facilities connectivity, (iii) unimpeded trade, (iv) financial integration and (v) people-to-people bonds.

Policy Coordination: BRI is designed to uphold the global free trade regime in the spirit of open regional cooperation. Accordingly, BRI will promote orderly and free flow of economic factors; efficient allocation of resources; and deep integration of markets; while, encouraging BRIPCs to achieve economic policy coordination and carry out broader and more in-depth regional cooperation of higher standards. BRI brings a strategic focus to the Government of China's (GOC) outbound initiative by encouraging Chinese firms to search

new markets and investment opportunities, with an initial emphasis on regional connectivity.

- **Facilities Connectivity through Infrastructure Development:** The correlation between and impacts of infrastructure development and economic growth is debatable but it cannot be ignored nor overemphasized. The BRI however, is a gigantic infrastructural initiative modeled to contribute immensely to the economic development of China and the BRIPCs. With USD 900bn of planned investments, BRI is the largest overseas investment driver ever launched by a single country connecting 65 countries having projects under BRI stamp, and ultimately making the growing middle classes more inclusive. Companies, both within and outside China, in the infrastructure, telecommunications, trade and financial sectors will benefit, while providing opportunities to manufacturers, raw material suppliers and logistical service providers as well as financial and professional services firms. BRI would be able to improve connectivity of their infrastructure construction plans and infrastructure networks, bringing together all sub-regions in Asia, Europe and Africa, taking into account each other's security and sovereignty concerns. Key transportation passageways will be improved on, thus paving way to realize international transport facilitation for the different countries through Railways and Highways; Sea Ports; Aviation; Energy – Oil, Gas Pipelines and Power Supply; and Communications, such as Optical Networks.
- **Unimpeded Trade and Investment:** This is to be realized by the removal of investment and trade barriers for expanded cooperation and BRIPCs can explore new growth areas of trade and improve trade structures⁴. Negotiations on bilateral investment protection and double taxation avoidance agreements will be pushed forward to integrate investment and trade. BRI also plans to simplify and increase cross-border trade – ultimately creating opportunities for Chinese companies to generate more demand for their goods and services. In the first eight months of 2016, trade between China and BRIPCs exceeded US\$600 bn or 26% of China's total foreign trade volume. Based on this, the annual trade volume between China and BRI PCs is expected to exceed US\$2.5 trillion in the next ten years⁵.
- **Promotion of People-to-People Relations:** upon implementing this initiative, there will be a focus on people-to-people relations, allowing for extensive cultural and academic exchanges.

⁴National Development and Reform Commission (2015). Vision and actions on jointly building Silk Road Economic Belt and 21st-Century Maritime Silk Road. 28 March

⁵ HKTDC Research (2015) The Belt and Road initiative, 19 Aug

Such endeavors will help to strengthen public support and deepen bilateral and multilateral cooperation. These aim to increase personnel exchange and cooperation between BRI PCs. In 2016 alone, China has provided training to 1700 persons of different disciplines in Sri Lanka. In addition, many scholarships are given to university students and others professionals.

Financial Integration: Plans are made to build a stable currency system, credit information and credit rating systems and, cross border exchanges in Asia along with other financial initiatives for the deepening of financial integration. Financial institutions, such as the Asian Infrastructure Investment Bank (AIIB) and BRICS (Brazil, Russia, India, China and South Africa) Bank – would help to expand the scope of multilateral financial cooperation. The infrastructure projects will be funded by strengthening the existing financial framework of lending and capital-raising and will be further supported through new or enhanced customs, taxation and trade and investment policy conditions.

The Financial Support

BRI is backed by substantial financial powers. The GOC has launched a US\$40 bn Silk Road Fund (SRF), which will directly support the BRI mission. SRF, which became active in February 2015, is backed by the China Investment Corporation (China's sovereign wealth fund), China Development Bank (CDB), the Export-Import Bank of China (EximBC) and the State Administration of Foreign Exchange. SRF will be used to improve connectivity along the "Belt and Road" by financing infrastructure, resources, industrial and financial co-operation projects, probably with an initial focus on Central Asia and SEA. Estimates indicate that BRI infrastructure in Asia alone will cost US\$1.7 trillion a year through 2030.

The AIIB, spearheaded by China was established in October 2014 with a stated mandate of combining China's core competencies in building infrastructure with deep financial resources to help development in other parts of Asia, will also help finance the construction of BRI projects. China will provide much of the US\$100 bn of AIIB's proposed initial capital. At its announcement, it sought participation by other Asian governments and signed Memorandum of Understandings (MoUs) with 25 of them (approximately), with assurances of funding from the Asian Development Bank (ADB), in

which China is a member. The proposed infrastructure spending is diversified across a range of sectors. The CDB promised to invest in more than 900 projects-including projects covering coal and gas, mining, electricity, telecommunications, infrastructure and agriculture-in PCs. This development could simultaneously narrow the annual \$800 billion gap between the supply and demand for infrastructure spending in Asia while, helping to offset the effects of falling investment and rising overcapacity within China. While AIIB, SRF and the New BRICS Development Bank have already committed approximately US\$1.1 trillion, the remaining funding gap will be met by additional capital-raising and investment activity both inside and outside China. Domestically, BRI's road projects will promote growth in underdeveloped Central and Western regions focusing on a number of provinces. Such investment could boost overall GDP, while reducing regional economic inequality and mitigate some social tension in those provinces.

Table 1- Selected BRI Investments in South East Asia and South Asia

Country	Projects declared under BRI	In Amount pledged (in US dollar bn)
Malaysia	On 09 th August, China and Malaysia signed up for a rail project linking Peninsular Malaysia's East and West. The 688 km East Coast Rail Link (ECRL) will connect South China Sea and the strategic shipping routes of the Straits of Malacca in the West. 85% of the Cost will be financed by a loan from EXIMBC	\$13 bn
Thailand	A Rail link through Thailand that connects industrial Eastern Seaboard with Southern China through landlocked Lao PRD.	Phase 1 -will cost \$ 5.5bn
Myanmar	Development of Kyauk PYU port	\$ 25 ban (estimated)
Bangladesh	to bring government offices under one network and construct a transnational highway connecting the Indian State of West Bengal and the South Western Chinese city of Kunming via Myanmar and Bangladesh (agreed in June 2017)	Soft loan of \$25 for a variety of projects
Nepal	108 projects including digitization of government departments and energy projects	\$ 8.3 bn
Pakistan	China-Pakistan Economic Corridor (CPEC) including network of roads, railways and energy projects, and linking Gwadar port with Xinjian region in China	\$ 46 bn.

Sri Lanka	Hambantota port development (PPP) Colombo port city project	\$ 1.12 bn \$1,4 bn for land reclamation and construction
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- Source: (FT 10th august 2017). www.ft.lk

Potential Economic and Other Benefits to Sri Lanka

- **Sri Lanka-China Old Trade Relationships**

There is ample evidence to support the importance of Sri Lanka’s strategic location between East and West, during the period when the Ancient Silk Road operated from China to Europe providing land and sea routes for the movement of silks, spices and precious stones⁶. Sri Lanka’s strategic position in the middle of the MSR offers the opportunity of promoting the country as a trading hub in the IO⁷. In view of these links and benefits, the former Sri Lankan administration has pledged to support China’s BRI. Hambantota port thus became a part of China’s so-called string-of-pearls plan for a line of ports stretching from its waters to the Persian Gulf. Through BRI, China is also attempting to protect its historic image as one of the listed world heritages and promote its old cultural and religious ties with Asia through educational programmes and cultural ties.

During 2005-2014, China’s global investments and contracts stood at \$870.4 bn, of which \$ 8.9 bn has been to Sri Lanka. In comparison, International Finance Corporation, part of the World Bank Group, has provided only \$ 596mn to Sri Lanka during the same period. In 2014, China was the biggest source of FDI to Sri Lanka exceeding \$ 400 mn, with a diversity of infrastructure investments and continued to be one of Sri Lanka’s top 5 investors. Norochchalai Power Plant, Katunayake Airport Expressway, Moragahakanda Irrigation Development Project, Southern Expressway are some of the main infrastructure projects constructed by China. As the biggest donor, since 2009, China has extended a \$1.2 bn worth of assistance in the form of grants, loans, and credit amounting to 54% of the total of \$2.2 bn committed to Sri Lanka by foreign countries and multilateral agencies. In sum, China has

⁶Nipuni Perera,(2016), Talking Economics “China’s One Belt One Road Initiative: Implications for Sri Lanka”, June 22, <http://www.ips.lk/talkingeconomics/2016/06/22/chinas-onebelt-one-road-initiative-implications-for-sri-lanka/>

⁷Thilini Kahandawaarchchi, (2017), “Why did SL seek Chinese investment in ports, Daily Mirror , 10th August

provided Sri Lanka \$5 bn in aid over the last decade and has also fulfilled 65% of its total pledged assistance to Sri Lanka. Some of China's lavish gifts to Sri Lanka are iconic buildings⁸ that add value to Sri Lanka's physical investment stock.. In addition to being the key donor, investor, in 2013, China has been Sri Lanka's second largest trading partner, surpassing USA, and only behind India. In the same year, Sri Lanka's bi-lateral trade with China exceeded \$3 bn. The newly established links to the BRI could further improve trade and investment linkages with China and other BRI PCs.

Despite these firm commitments from China, it is too early to assess the long term benefits and economic impacts on BRIPCs due to the absence of firm data and official communique issued by GOC or BRIPCs. In Sri Lanka, relevant data and information are spread across several ministries and there is no central authority dedicated to implementing BRI listed projects. Hence much of the analysis is termed "potential" as it is based on estimates and assumptions.

BRI Listed Projects in Sri Lanka

At present, the Hambantota Port Development Project (HPDP) and the development of the Colombo Port City Project (CPCP) are listed as BRI projects.

HPDP and Proposed Industrial Zone.

The Hambantota port, built with a loan from EximBC has not been financially viable since it began operations in 2011. The former Government therefore, sought Chinese assistance primarily to make Hambantota port viable and also to reduce the heavy burden of loan repayment. As per figures announced by the present Government, the port's annual loan repayment commitment stood at \$59 million accompanied by a loss of \$304 million by the end of 2016⁹.

On 29th July 2017, Government of Sri Lanka (GOSL) and China Merchants Port Holdings Ltd (CMPH- a global Port Operator) signed a Public –Private Partnership (PPP) agreement to develop Hambantota Port under a 99 year lease, with CMPH holding 70% and GOSL 30% stake. CMPH paid GOSL \$1.12 bn and the PPP was designed to turn around port operations

⁸ BMICH, Superior Law Courts Complex, Nelum Pokuna performing Arts Theatre

⁹ Sri Lanka Ports authority (2017) , August

with no further increase in national debt.¹⁰ Two local companies will be formed to facilitate the process:

- **Hambantota International Port Group (HIPG):** SLPA (15%) and CMPH (85%).CMPH handles commercial/terminal and business operations
- **Hambantota International Port Services (HIPS):** SLPA (50.7%) and CMPH 49.3%. Of the 50.7% owned by SLPA in HIPS, 8.7% is from HIPG in which CMPH has an 85% stake. HIPS will develop, operate and manage common user facilities, including security services in and around the port.

GOSL is planning to develop 15,000 acres of land as a designated Industrial Promotion Zone (IPZ) around Hambantota port with China being the developer with the promise of significant job creation from the port and IPZ operations.

BRI Connectivity and Potential Economic Benefits to Sri Lanka

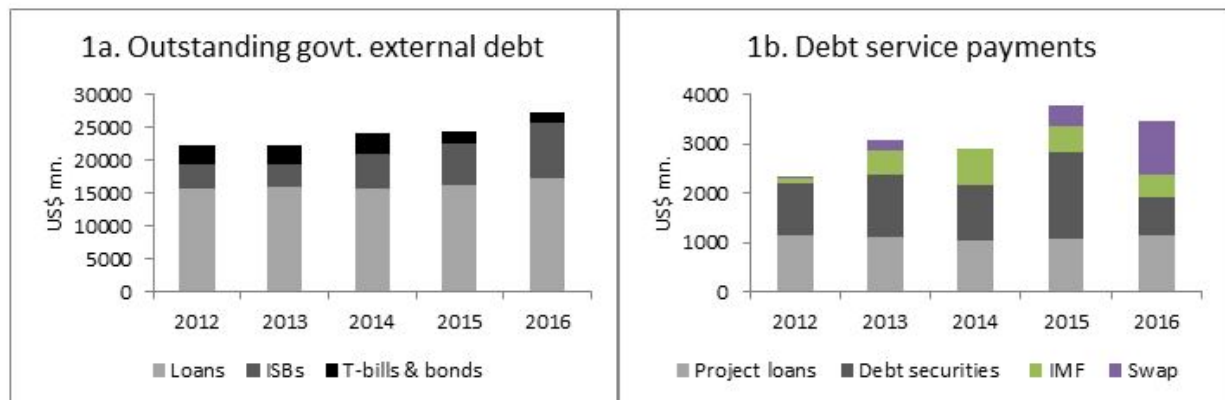
Increase in gross official reserves (GOR): As of June 2017, Sri Lanka's gross official reserves (including gold and special drawing rights) were at \$ 6.9 bn. The foreign currency component of the GOR was under \$ 6bn as at the same date. The inflow of \$ 1.12 bn is credit positive as it would increase the foreign reserves, ahead of the country's large debt repayments during 2019-22 period. This move will also boost investor confidence and may encourage future portfolio investments into Sri Lanka. The Central Bank of Sri Lanka (CBSL) is keen to reach a GOR target of \$ 7.4 bn by the end of 2017, prescribed by the IMF under the three year Extended Fund Facility (EFF) programme.

Temporary Relief on Sri Lanka's External Debt Servicing: By 2015 more than 50% of Sri Lanka's external debt comprised commercial borrowings. Although the external debt to GDP ratio had reduced over the years, the change in the external debt composition had a significant impact on external debt servicing. The State of the Economy Report 2016 of the Institute of Policy Studies (IPS) indicated that the settlement of International Sovereign Bond (ISBs) issues will start bunching up during 2019-2022 period; Sri Lanka is set to repay US\$ 5 bn in ISBs; and that there is no leeway available for Sri Lanka to borrow foreign currency for

¹⁰Economy & Business Alerts, Breaking news about economic and business issues.

infrastructure development. According to the CBSL, government debt/GDP ratio has increased to 79.3% at end 2016 from 77.6% in 2015.¹¹ Sri Lanka has nonetheless made a start towards debt sustainability with a stronger fiscal outcome in 2016 under the IMF programme (Figure 1).

Figure1: External Debt Dynamics



Source: Data from Central Bank of Sri Lanka (CBSL), Annual Report, various issues.

The HPDP deal is credit positive in terms of Sri Lanka’s rating: The inflow of \$ 1.12 bn would give temporary respite to CBSL in managing the exchange rate. According to Moody’s, Sri Lanka’s external debt maturing in 2019-2022 is \$ 13.8 bn¹² as against the country’s GOR of \$ 6.9 bn as at the end of June 2017. The decision to lease 70% stake to CMPH is a positive move as GOSL is not in a position to raise foreign funds to repay the Chinese company. Further, the proceeds from HPDP will help Sri Lanka to improve the country’s credit quality.

Opportunity to Join the ASEAN and APAC Supply Chain

As part of the ASEAN Economic Community initiative (AEC), ICT (ASEAN-5), electronics and electrical manufacturing (Singapore, Malaysia, and the Philippines), finance and insurance (Singapore), oil and gas (Malaysia), automotive (Thailand and Indonesia), and tourism (Thailand, Indonesia, and the Philippines) have been identified as growth potential industries within ASEAN-5. Being a BRI PC, Sri Lanka should explore the possibility of effectively participating in the supply chain towards SEA, ASEAN and APAC regions, by

¹¹Central Bank of Sri Lanka , Annual Report (2016) External Debt of the Government –table 6.6 and chart 6.7 On p214

¹²Daily Mirror (2017) , Hambantota Port sale only temporary fix as external woes persists: Moody’s 01, August

offering Sri Lanka's improved infrastructure, skilled work force and relatively low production cost on manufacturing. Entering into beneficial bi-lateral trade agreements would be a key towards this move¹³. Sri Lanka should discuss with major regional or global producers of goods and services, such as Korean LG production, apple iPhone, or Alibaba's mobile products and offer location facilities, the supply of components of main products or secure sub contracts. Many of the global producers, are keen to establish their factories in growing Asia or place orders with Asian countries that are capable of producing quality components. As it is, Sri Lanka's trade prospects with the SAARC region are not very promising and hence is the need to look for opportunities in the ASEAN through BRI and gain access to new markets. Sri Lanka should emulate the example of western producers of prestigious brands where the principal is linked to a number of supporting local or foreign SME component suppliers. The upgrading of physical infrastructure will encourage the domestic private sector to finance newer SME type entrepreneurs.

Mattala Airport

The EximBC has funded the Mattala Airport, but due to infrequent flight arrivals, the airport continues to make losses since its opening. There are plans to build a connecting road between the airport and the Port. In this context, a PPP or JV is needed to operationalise Mattala airport of which the estimated total net worth is \$293mn. The HPDP, proposed industrial zone and planned entrepo't trade would bring in new businesses to Mattala airport. GOSL and India are reported to be having discussions to establish a PPP to turn around the airport.

Port Services is a Lucrative Foreign Exchange Earner

Colombo port is already one of SA's top most container transshipment hubs. Its transshipment business increased from TEU 3.2 mn in 2013 to 4.35 mn in 2016 recording a 15% annual growth which has contributed to Colombo becoming a must stop for the 20 top lines. The Chinese –run Colombo International Container Terminals (CICT) has increased port capacity and throughput significantly. Handling over 2 mn TEUs in 2016, the Colombo port has received some of the largest vessels on Asian and European routes.

¹³Wignaraja Ganeshan, (2017), Sri Lanka's Future Lies in Emulating Factory Asia, Daily FT, September

Sri Lanka has a strong feeder network covering major ports of India, Bangladesh, Pakistan, Maldives and Africa. Currently, Africa and the Gulf, East Coast of the Indian sub-continent, Port of Bangladesh and other Indian ports conduct approximately 30% of transshipment trade via Colombo, while the rest is being done through Singapore and Malaysian ports. The lower freight rates in Colombo offer shippers a much better opportunity to increase their transshipment trade but, Colombo needs to be more customer focused and improve on its services to win confidence in port operations. The proposed HPDP and the IPZ offering significantly improved shipping related infrastructure, adjacent warehousing, container yards, bunkering facilities, and with BRI connectivity will make Sri Lanka's port services more attractive in the future. The HPDP will be a key service centre and an industrial port offering bunkering and refuelling facilities.

With the Chinese handling the commercial operations at Hambantota, large Chinese ships traversing the IO are expected to touch there en route to other destinations. As reported by CBSL, shipping related transportation has accounted for 11.6% of GDP in 2015, generating Rs 1.3 trillion (\$ 8.1bn), up 1.6 % from the year before. The world's busiest international shipping lanes or the sea lines of communications pass through the Southern coast of Sri Lanka just 5 nm or 9.5 km away from the coast and this geographical position has given ample opportunities for Sri Lanka to improve its position as a potential Maritime Hub in Asia.

Potential to Improve Sri Lanka's Entrepo't Trade

BOI-Sri Lanka has demarcated 6 areas in close proximity or within the Sri Lankan ports and airports as free ports or bonded areas, which are supervised by BOI. Two of these demarcated areas are the Hambantota port and Mattala airport areas. Sri Lanka's location on the MSR route would place the country on a very advantageous position to be a major player in entrepo't trade provided, the authorities set a conducive environment for the take-off of such trade. In this regard, action is needed to have easy custom formalities and efficient logistic processes covering accessible locations for entrepo't registration, warehousing and bonded facilities; a flexible tax regime; liberalized exchange management; appropriate legal and regulatory framework; and a fast track dispute resolution process. The Export Development Board of Sri Lanka (EDB) has taken the lead to prepare necessary background for the take-off of entrepo't trade, especially in exports in the near future. Currently, Singapore, Hong

Kong and Dubai are the reputed entrepo't trading hubs commanding a combined 75% of global enetrpo't trade in 2014, with Hong Kong having the largest share of 44%.

As shown in table 2, Sri Lanka has already linked up with global giants for its entrepo't - exports and imports and action is needed to make use of the BRI status and new businesses. In 2016, Sri Lanka re-exported to 32 countries, accounting for 69% share of the total FOB value of re-exports with a 63% of the CIF value of imports from 4 partner entrepo't hubs. Although Sri Lanka has a long way to reach hub status in entrepo't trade, prospects will be enhanced due to its BRI status which aims to promote entrepo't trade in the PCs.

Table 2: Sri Lanka's entrepo't trades-2016

Entrepo't Hubs	Re – exports (share of FOB value) in percent	Imports (share of CIF value) in percent
UAE	24	
India	23	
China	11	
Singapore	11	
China		25
Canada		17
UAE		11
Netherlands		10
Total	69	63

Source: EDB

The Colombo Port City Project (CPCP) and the Colombo International Financial Zone (CIFZ)

The GOSL, together with the Urban Development Authority (UDA) and the China Harbor Engineering Corporation (CHEC) -led Port City Colombo (Pvt) Ltd (the Project Company) signed a Tripartite Agreement for the development of a new CIFZ, in addition to the construction of the CPCP. Due to Sri Lanka's strategic location on the MSR, CPCP would play an instrumental role in China's BRI. CHEC believes¹⁴ that the CPCP would be beneficial, although the project had a setback due to suspension of operations in March 2015 and recommencement in September 2016. However, when completed by 2041, it will give Sri Lanka, a world class city status in South Asia¹⁵ attracting tourists. At present, 45% of the sea

¹² Lian Thow Ming (2017), the Chief Sales and Marketing Officer, the CHEC Ltd, Daily FT, 18- July

land reclamation is completed. According to CHEC, the project would cost USD 1.4 bn just for land reclamation and construction.

Fig 2: View of the CPC in 2016



Over 40% of Colombo Port City is now reclaimed – Pic by Shehan Gunasekara

Colombo International Financial Zone (CIFZ)

The Tripartite Agreement signed in July 2017 encompasses the vision of establishing a CIFZ in the Port City and it to be governed under a new Act titled CIFZ Law, which will be introduced shortly. The CIFZ will create an environment to attract reputed international banking and financial service companies to be located within the port city with far reaching economic benefits to Sri Lanka. However, Sri Lanka needs to pay early attention to preparatory work that is essential prior to establishing an IFZ. It is reported that CHEC will spend additional \$1 bn for the construction of the CIFZ building¹⁶.

The joint venture between CHEC and GOSL, including UDA, is confident in effecting a mixed development consisting of pilot schemes with residential, retail, commercial office and hospitality components. The property developers are actively involved in negotiating expressions of interest from Chinese, Indian, Malaysian and Singapore based investors/second tier developers, while local development companies and investment institutions are also searching for opportunities. Sri Lanka needs to attract large investments

¹⁶ Daily Mirror (2017) , 9, October

in transport infrastructure and utility provision for long term benefits. The sea ports of Colombo, Hambantota and Trincomalee and the international airports, Colombo and Mattala, are to be linked as special economic zones by road and rail, creating corridors of real estate and these developments would make CPCP a visible benefit to Sri Lanka under the new MSR.

Asia Pacific is leading the Digital Revolution of Financial Services

The Shape of the Future Financial Services Industry

Since the global financial crisis, leading APAC -based banks have outperformed the global banking sector, by adopting digitization and technological advances. As international banks downsize or withdraw from APAC, domestic and regional banks are stepping in - with a wave of new competitors hot on their heels. The region is already seeing new types of competitors from the rapidly-developing FinTech sector, offering new banking, and payment and financing options.

However, the Fintech's and start-ups are not expected to cause major disruption in core banking services - at least in the short term. In fact, their presence may be beneficial to banks, giving them the opportunity to partner with these players. "National Champions" are on the rise across the region, hastened by the market integration promised by the upcoming AEC, which will enable banks to operate more easily across borders. Regional banks from Japan, Australia and ASEAN are also building their presence in the wider Asia. Banks in the ASEAN are now looking for opportunities in the BRI as some of them are digitally ready to maximize benefits and join forces with Fintech which are driving the digital financial services industry.

Sri Lanka with its reformed domestic financial sector infrastructure will be able to work with regional banks in facilitating the on-going digital revolution in the APAC. Sri Lanka should now link up with banks in BRIPCs and be involved in the regional digitization move by facilitating cross border transactions among them which requires a considerable amount of background work. In the meantime, the country should be ready to accommodate Fintech and startups which are gathering SME support and reflecting customer preferences in their operations. The regional Fintechs, especially the Chinese, Australian and Singaporean

companies are spreading across APAC demanding a flexible legal and regulatory framework.

Use EEZ to Develop Marine Resources and Maritime Activities

Sri Lanka's Exclusive Economic Zone (EEZ) extends to a distance of 200 nautical miles from the baseline. Within this zone, the country asserts, among others, sovereign rights to explore, exploit, conserve and manage natural resources, both living and non-living and, exclusive rights to authorize regulate and control scientific research. The area enclosed by the EEZ is reported as 517,000 sq. km. which is 7.8 times the total land area of the country. Sri Lanka's only international border is its maritime boundary with India. The country can also claim an extensive but yet to be determined additional extent of seabed area under the United Nations Convention on Law of the Sea. The total area including the EEZ is anticipated to be 23 times larger than the total land area and it can be used for exploration and exploitation of maritime and fisheries resources, minerals and hydrocarbon resources. Sri Lanka should seek foreign expert assistance to assess feasibility and commercial viability of uncharted areas. This could potentially be a BRI project that aims at becoming a maritime hub¹⁷ in the future.

BRI has become the cornerstone of China's economic diplomacy and has put Sri Lanka firmly back on the maritime trading map. This contemporary reincarnation of the ancient Silk Road was articulated in a document released by the GOC in 2015¹⁸ outlining the strategy to connect the Asian, African and European continents and to strengthen partnerships with countries along the BRI, towards promoting diversified, independent, balanced and sustainable development. China's Xiamen (a private company) is an example of a major hub operator on the MSR, connecting China with numerous European cities, as well as Central Asia and the Middle East. Of particular significance to Sri Lanka would be the MSR link to China's coastal cities, to Africa and Europe via the SCS and IO. China's trade with nations along the MSR, over the past decade, has been growing at an astonishing average annual rate of 18.2% and China has already invested over \$ 8 billion in Sri Lanka with an additional \$ 24 billion of potential future investment recently announced at a BRI forum for global leaders, hosted by GOC.

¹⁷ C D Gunawardena,, Sri Lanka Navy outlines the importance of Maritime hub –seminar sessions-

¹⁸ Government of China (2015) Visions and actions on jointly building Silk Road Economic Belt and 21st Century Maritime Silk Road",

Possible Roadblocks, Challenges to BRI: Geo-political tensions:

BRI has heightened geo political sensitivities in the region, with India expressing suspicion over Chinese military ambitions in IO and the Western involvement in SCS operations, amongst other concerns. This leaves Sri Lanka facing the challenging task of delicate balancing between the interests of India and China, requiring diplomacy and patience in negotiations. Historically, freedom of navigation across the IO has been the catalyst for economic growth and prosperity in the region, and as India belatedly expands its interests in Sri Lanka. The critical question is whether BRI will be able to deliver its ambitious goals due to many challenges it is confronted with. Due to geo political tensions, some projects may have to be stalled. The potential roadblocks and downside risks include the following:

- Competition between China and Russia: Without Russian cooperation, some of these projects cannot be implemented. Currently, they're cooperating with each other but that could change if Russia begins to feel its influence on its neighbours being undermined
- Unstable/ high-conflict areas, such as Pakistan being one of the first countries that opted to be a BRI participant and its present uncertainties and continuous conflict could be a threat to BRI projects
- Corrupt and unethical business practices adopted by some PCs, especially, questionable procurements, which, although not proven, may tarnish the image of the BRI and stall some big projects
- Local resident resistance: One of the biggest challenges Sri Lanka faces right now is the local resistance. Part of the remedy for this problem would be to educate all stakeholders on the BRI and to establish a central point (BRI desk) with experienced professionals who will handle queries and issues. Even groups that theoretically stand to benefit from increased jobs and trade are often unwilling to give up their land or their way of life, especially when they have no confidence that any of the money involved will actually make it into their pockets. It is important that Sri Lanka leaves no room for local corruption as the other BRI PCs would be watchful.

New Opportunities and Potential Benefits to Sri Lanka under BRI

BRI may be a Chinese initiative, but it is a global effort involving developed and developing countries and international organizations. Hence it is likely to result in opportunities

throughout the infrastructure supply chain, from the largest construction firms to small service providers. Sri Lanka can in the short term benefit from providing:

- Equipment and component manufacturers manufacturing for high-speed railways, ports, engineering machinery, high voltage power grids and nuclear power
- Construction-related materials and input suppliers can link up with the already established 65 IPZs on the BRI
- As demand for raw materials increases with the progression of infrastructure projects, bulk shipping and logistics services at Colombo and Hambantota ports will increase
- China is a major player in the fight against climate change and that may enable engineering firms, clean energy companies and NGOs in Sri Lanka to set up feeder companies to work on clean energy and sustainability projects
- Sri Lanka's cheaper, faster port and shipping operations make it easier to expand into other markets. European trade is expected to get a 6% boost from infrastructure improvements alone, and SEA are already benefitting from new trading opportunities, new markets and consumers.
- BRI encourages trade and financial digitization through on-line trade, thus enabling more and more people in PCs to buy goods and services that were previously out of reach. This would help localize benefits and enhance inclusion.

There will be drop outs from a gigantic ventures of this nature, especially the countries which are not ready or those who do not pay attention to be in readiness will be the first set of drop outs for reasons well known to themselves. Cost benefit analysis will show that benefits from BRI far outweigh its costs.

Concluding Remarks

The paper argued that the BRI has huge potential in promoting economic development in the participating regions through free flow of economic factors, highly efficient allocation of resources and deep integration of markets. BRI helps to achieve economic policy coordination and more in-depth regional cooperation of higher standards and create an open, inclusive architecture that will promote economic development in all BRI PCs. Simultaneously, it will help rebalancing growth in the Chinese economy by utilizing overcapacity and providing employment opportunities to Chinese enterprises.

However, BRI has already attracted many risks and challenges, primarily geo political resistance, Western interference and in-country road blocks in some of the PCs. China as well as the BRI PCs have to work together to address some of the geo political concerns while, individual countries have to understand the imperatives and strengthen their negotiation abilities, governance and strategic planning to deal with domestic protests. The paper argued that BRI benefits should be more inclusive and reach all economic groups and stakeholders in their respective countries. Smaller countries in SA, especially, Sri Lanka, the Maldives, Nepal and Bhutan, should focus on diplomacy, firm political will, supportive regulation, strong project management, transparent procurement procedures and careful consideration of environmental and social impacts to be in line with others and to diffuse geo political tensions.

BRI is a futuristic project, with potential benefits spanning over a period of 35 years. The uniqueness and salutary effects of the BRI will emerge from physical and virtual connectivity, and economic integration across three continents. As such, a PC can be a beneficiary of spill-over effects of a BRI infrastructure project or from removal of transport and trade barriers in a neighbouring PC. Due to the opening of new markets and people to people connectivity, BRIPCs can enjoy benefits even before completion of the earmarked projects. BRI closely aligns with China's "Going Out" strategy, which encourages mainland companies to do business outside of China to boost outbound growth. For example, in the first eight months of 2016, trade between China and BRIPCs exceeded US \$600 bn or 26% of China's total foreign trade volume. Based on this, the annual trade volume between China and PCs along the BRI routes is expected to exceed US\$2.5 trillion in the next ten years.

Most of the APAC and ASEAN country governments have envisioned the enormous potential benefits of BRI and they are ready for implementing BRI listed projects while South and Central Asia are still struggling due to political instability, policy inconsistencies, and external interferences in some of the countries.

Sri Lanka due to its strategic location is having a natural advantage compared to most other countries. However, at national level, there is no consensus for making use of the opportunity offered to Sri Lanka. To benefit from BRI, Sri Lanka should prepare a comprehensive policy framework that includes: clear policy decisions, operational, institutional, legal and regulatory support for implementation of BRI with time targets for each stakeholder. GOSL needs to set up a central Unit/Department to sort out operational issues and continuously

monitor progress. Sri Lanka should also be mindful that BRI is a gigantic project and requiring to cooperate and work at different speeds with other PCs. Once GOSL decides on its stand and policy framework, then the authorities should identify priority projects which can be listed under BRI. Attention should be paid to establish appropriate institutional support; legal and regulatory aspects, including contract laws; arbitration procedures; consistent trade and investment policies; remedies for labour issues, potential redundancy of employees, skills development and capacity building; compensation packages for affected parties, etc. Most of the ASEAN countries have begun to address labour issues and arranged necessary skills training for workers.

In this context, it is time for Sri Lanka to focus on securing BRI benefits over three decades into the future. Many projects in Sri Lanka have failed due to lack of national consensus and frequent policy changes introduced by consecutive governments. The top most imperative for Sri Lanka would be to prepare for hard bargaining in preserving sovereignty and national integrity. Second, is to set up an effective policy and institutional framework that would identify national priorities, appoint a professional decision making body as the country is already behind in terms of BRI readiness than others in the region.

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