

# COLOMBO PORT CITY: A PANACEA FOR ECONOMIC DEVELOPMENT

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Several international rating agencies such as Standard and Poor's, Moody's, and Fitch Ratings downgraded Sri Lanka's sovereign credit ratings in 2021 and 2022. All these moves designate concerns about Sri Lanka's competence to fulfil external debt repayments. The external debt issue in Sri Lanka, which often leads to serious Balance Of Payment (BOP) and budgetary problems, is not exclusively a result of its massive borrowing from various external sources. The root causes of the continuing crisis are found in structural weaknesses such as the contraction of export income, low tax revenue, lack of Foreign Direct Investment (FDI) and the failure to diversify export destinations, products and sectors (CBSL 2019, 2020; U. Moramudali 2021). Failures to provide comprehensive and consistent as well as long-term solutions to address such weaknesses have resulted in the country running into serious BOP and fiscal crises. Youth unemployment, prolonged social pressure, long queues for fuel and gas, political instability, continuous reduction of tourist arrivals and remittances, and a frustrated society are some of the serious symptoms of these structural weaknesses of the economy.

Both tangible and intangible factors have affected this socio-economic and political related structural relegation over the decades. With these unfavourable circumstances, could a mega project such as the Port City which functions as a walking skeleton change these historical socioeconomic and structural weaknesses and spur growth in Sri Lanka.

## Colombo Port City

The Colombo Port City Project (CPCP) is widely regarded as the largest and most ambitious Sri Lankan Public Private Partnerships (PPPs) and Foreign Direct Investment (FDI) undertaking to date and is a collaborative project between the Government of Sri Lanka (GOSL) and the China Harbour Engineering Corporation (CHEC) Port City Colombo (Pvt) Ltd. Colombo Port City is a new city development built as an extension of the Central Business District of Sri Lanka's commercial capital, Colombo. This project which spans throughout 269 hectares of reclaimed land from the sea, is bound to be the South Asia's premiere residential, retail and business destination.

The Port City includes five grounds - the financial district, central park living, island living, the marina and the international island - offering office, health care, education, retail and entertainment facilities, as well as hotels and restaurants. When this plan comes into effect, there will be better employment opportunities for Sri Lankans across the country.

This city will serve as a hub for access to finance and service with the most successful modern facilities. The city will also be a hub for absorbing future generations of Sri Lankans into the modern technology and innovations. It can also be seen as the largest project to connect Sri Lanka with the Mid-

dle East, East Africa and the Asia Pacific region.

## Port City Special Economic Zone

The establishment of such a Port City special economic zone is necessary to improve the exports and related services, FDIs and tourism sector of the country. Port City special economic zone, enacted in May 2021, and the act established a single window investment facilitator to promote, administer and regulate business activities within the port city. Many of the world's most economically developed countries have succeeded in adopting such approaches. The establishment of such a city must be seen as essential for Sri Lanka to lead today's internationally competitive economy.

Building and operating a world-class business and financial centre are monstrous tasks. Attracting foreign investors to carry out the project within the strict legal framework currently in place in the country is not easy. The Government has embarked on an effort to create a separate legal framework for governing the city. Successful financial cities in the world like Singapore and Dubai have been flourishing economically in implementing such mechanisms. When a special economic zone is established, the maximum benefit cannot be achieved sans separate legal administrative arrangements.

In today's world of complexity, special laws become inevitable to govern areas that are crucial for development. Otherwise, there will be failures in managing such a unique financial city. Those who make significant investments do not want to operate within a tight framework. In this context, where Sri Lanka's traditional legal system calls for substantial reforms, it is impossible to stand within the legal framework and manage a progressive financial city aimed at pure economic benefits.

There have been a lot of arguments over the Colombo Port City Economic Commission, which is the body that the Government wants to set up to govern the city and thereby the Government has recently proposed a Parliamentary Bill. The Bill attempts to create a special economic zone. Thus, the city will be governed by an Act of Parliament of Sri Lanka. Unlike other cities in Sri Lanka, this city needs to have a different legal framework to stand abreast with international standards so that increased foreign investments could be attracted.

As it is a unique city, it can be governed separately. Sri Lankans can also learn lessons concerning development experience through it.



Colombo Port City

The city can also be used as a model to identify shortcomings in Sri Lanka's administrative practices. The port city has been given special financial powers. By granting special financial powers to the particular city, Sri Lanka can manage it properly and reap appropriate economic benefits.

When looking at matters related to tax concessions, it is essential to note that the country's economy can be boosted by providing adequate tax concessions for investors and importers. It is in this context that the bill has been proposed to provide tax concessions to investors in the city. Without tax concession investments will not be attainable as expected. Modern financial cities are governed by special arrangements in many countries that have implemented such schemes.

## Economic Impact of the Port City Project

At present, the country's economy has been hit hard by the impact of the political instability and Covid-19, resulting in a slump in GDP, high level of inflation, youth unemployment, lack of foreign exchange and BOP issues. The current economic crisis has affected more than twenty million people in this country. The Government has a responsibility to find ways which expedite the recovery. In this context, establishing a financial city under the Colombo Port City project will be a factual instrument to revitalize the

Sri Lankan economy. The Colombo Port City can create employment for millions of Sri Lankans, and it will undoubtedly serve as a hub and leading project for creating an international market for domestic products.

The economic impact of the Port City can be divided mainly into three categories namely direct, indirect and induced impacts. Employment creation, value addition to Gross Domestic Product and fiscal contribution in numerous ways at the reclamation stage, construction stage and operational stage can be recognized as benefits of the project.

Reclamation, infrastructure development and land lease/sale - This stage entails the reclamation, development of infrastructure and sale or lease of the marketable land plots held by CHEC Port City Colombo (Pvt) Ltd (Project Company) and Government of Sri Lanka. Construction stage - Subsequent development of real estate within Port City was assessed under this stage. This stage includes the construction of all real estate within the Port City. Operational stage includes the operations of the businesses within Port City and assumed to reflect a mature year of operation. However, it should be noted that the businesses within Port City will perform based on their industry dynamics and reach mature stages at different time periods.

It was indicated that Sri Lanka stands to benefit by the Port City, provided reclamation, construction and operational stages proceed as planned and are well integrated with the local economy. A clear indication of this is that 45-50% of the total value addition to the Sri Lankan economy is expected to accumulate indirectly i.e. through procurement of construction material domestically, expatriate and tourist spending across Sri Lanka and services rendered by local firms to occupiers of the Port City (PwC Research, Central Bank of Sri Lanka, 2021).

As per PwC estimates, these modern services could create up to US\$ 9 billion of economic value addition to Sri Lanka GDP and have a significant positive effect of US\$ 5.3 billion to the BOPs from service exports foreign earnings receipts annually, once the project reaches its full potential. The commercial sector is expected to create over 100,000 direct employment opportunities upon completion of the project. As a lifestyle destination, Port City could revitalize Colombo's appeal as a destination for city tourism similar to regional capitals such as

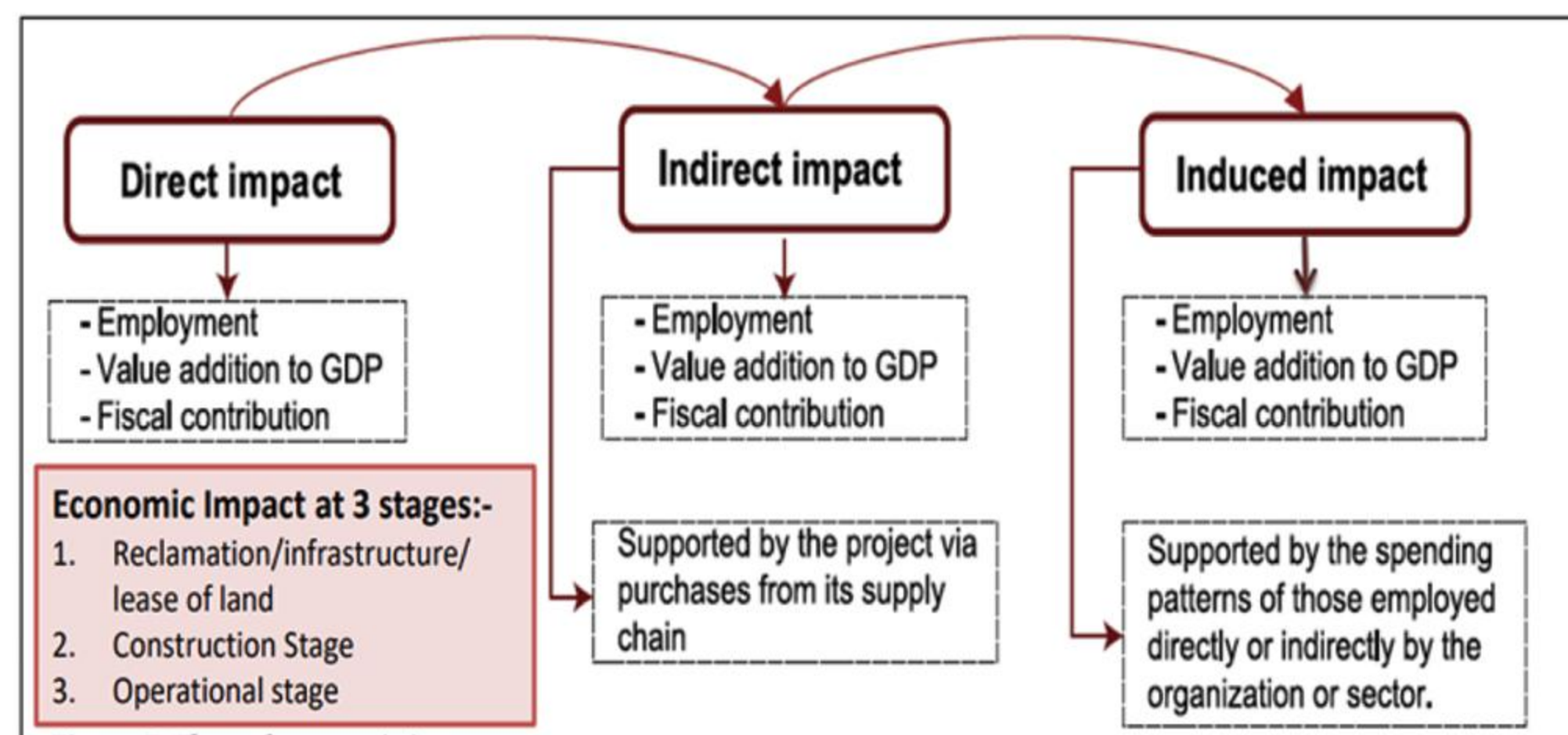
Bangkok, Kuala Lumpur and Singapore by leveraging on attractions such as a luxury yacht marina, a world-class integrated resort, high-end retail malls and an international convention and exhibition centre to attract high value tourists.

Tourism, retail, and leisure activities are estimated to generate up to US\$ 1.8 billion of direct economic value annually and provide 39,000 direct employment opportunities. Also noteworthy is the indirect contribution made by this sector that could amount to US\$ 850 million per annum via local supply chain. The Special Economic Zone legislation also seeks to provide concessions to both local and foreign investors, with an expected US\$ 12.7 billion to be attracted from the realization of value from land plots and construction activities that would be required to develop the 2.7 sqkm extension of the Central Business District of Colombo. A clear beneficiary of this FDI would be the construction sector, where US\$ 8.7 billion of FDI is expected, leading to the creation of over 340,000 direct employment opportunities during the envisaged completion period.

There is no doubt that the Colombo Port City project will be beneficial for the country's economic development and prosperity as a leading investment project. The CPCP has a significant impact on the national economy in terms of employment generation, attracting FDIs, GDP contribution, BOP and generating Government revenue. Increasing FDI in real estate and other businesses which will bring in both business and employment opportunities for both skilled and unskilled labour. Suppliers of materials are benefited at first two stages. The Government can expect revenue from the lease of marketable land at the first stage and an income in the form of import duty, income tax, value-added tax and license and application fees (fiscal contribution) at the construction stage. There will be direct contributions to the GDP by way of Investment and consumption within the Port City and also by way of payments flow through indirectly. BOP will be positively affected by foreign exchange of FDI, tourism related activities and export of other goods and services. A boost in the tourism industry could also be expected on completion of this project.

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Figure 1: Economic Impact of Port City Project



Source: PricewaterhouseCoopers Pvt. Ltd. (PwC), (2019).