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Harbor of Progress: Unraveling Sri Lanka's Colombo Port City

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Key takeaways

- The Colombo Port City is a Special Economic Zone (SEZ) project initiated in 2014, in collaboration with the Sri Lankan government and CHEC Port City Colombo Pvt. Ltd (CPCC), a subsidiary of China Harbor Engineering Corporation.
- The zone is housed across 269 hectares of reclaimed land from the Indian Ocean and is designed to be a financial and business nucleus, positioning the island as a key player in the international economic arena.
- Leased for a period of 99 years by China's CPCC, the Port City has been a heated topic in geopolitical dynamics, particularly as it is mapped under China's Belt and Road Initiative.
- As the country approaches pivotal presidential elections in 2024, close examination of the Port City's legislature, key stakeholders, and interest areas is crucial for the future of the island.

Background

Hailed as the fastest growing economy in Asia in 2014, Sri Lanka has hosted several SEZs, including Industrial Parks, Ports, and Export Processing Zones. Owned by the government and administered by the Board of Investment (BOI), these zones have a history of offering attractive investment incentives, coupled with tax exceptions, lower duties, and infrastructure development.

Enter the Colombo Port City, a unique SEZ initiative launched in 2014 that spans 269 hectares of reclaimed land from the Indian Ocean and serves as a partnership between the Sri Lankan government and China's CPCC. China, having already secured a 99-year lease for 178 hectares (over 65%), with the option to vend the land to domestic or international investors, has labeled this venture as the solitary project in Sri Lanka, officially tethered to the Belt and Road Initiative.

Chinese interest and engagement in the island have stirred much debate over the years, particularly with regards to the regional power's involvement in Sri Lanka's domestic policies. Furthermore, the Port City project has undergone several changes amidst Sri Lanka's dynamic socio-political climate. After the 2015 presidential election, the port's development was suspended, leading to its geographical demarcations expanding from 233 to 269 hectares, aiming to offset the daily loss of \$380,000 incurred by China during the project's hiatus.

The Colombo Port City Economic Commission Act, No. 11 of 2021 ([Port City Act](#)), is the primary legal framework governing the SEZ.

Implications for Businesses within the Port City

Sectoral Opportunities:

- The emergence of the Port City as a financial epicenter creates lucrative prospects for investors in sectors such as banking, fintech, and insurance. For instance, the development of cutting-edge fintech infrastructure within the Port City can attract businesses seeking a technologically advanced environment.

Strategic Advantages:

- The Port City's strategic location along key shipping routes offers unparalleled advantages to businesses involved in maritime trade, logistics, and e-commerce. A concrete example would be a logistics company leveraging the proximity to major shipping lanes for streamlined international operations, thereby reducing costs and enhancing efficiency.

Regulatory Landscape:

- Understanding the regulatory policies governing the Port City is paramount for businesses. Detailed scrutiny of land ownership policies, including lease agreements and tenure structures, is crucial. For example, a multinational corporation eyeing a long-term investment must navigate potential amendments to these policies that could impact the security of their tenure.

Monitoring and Evaluation

The Port City's corporate governance framework plays a pivotal role in shaping the environment for businesses. Transparent corporate governance practices are crucial for investor confidence. An illustrative example is the scrutiny of regulatory frameworks governing corporate governance, financial reporting, and compliance standards, ensuring businesses adhere to ethical practices. This also includes powers between China's CPCC and the Sri Lankan government.

Implications on the Local Economy

Economic Dynamics:

- The transformative impact of the Port City on Sri Lanka's economy is evident from the injection of foreign capital and the establishment of an international financial center. An example of this impact is the potential elevation of Sri Lanka into a regional economic powerhouse, attracting global investors and fostering economic diversification.

Debt Sustainability:

- However, concerns about debt sustainability arise due to the scale of Chinese investment. Striking a balance between reaping project benefits and mitigating over-reliance on external financing is critical. For instance, the government may need to implement measures to ensure sustainable debt levels, such as diversifying funding sources or negotiating favorable terms.

Job Creation and Skills Development:

- The development phases of the Port City present a unique opportunity for job creation. To illustrate, implementing inclusive workforce development initiatives, including skills training programs, ensures that residents actively participate in and benefit from the economic growth spurred by the project.

Cultural Integration and Social Harmony:

- The influx of foreign businesses into the Port City necessitates a focus on cultural integration. Policies implemented by stakeholders, including the government and businesses, should foster a sense of community. For example, initiatives promoting cultural exchange and addressing socio-cultural disparities can contribute to social harmony within the Port City.

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CONTACT



Michael Castle-Miller
Partner
Special Economic Zones (SEZs)
mcastlemiller@albrightstonebridge.com