

Sri Lanka's role in the Maritime Silk Road: An economic perspective

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November 5, 2015

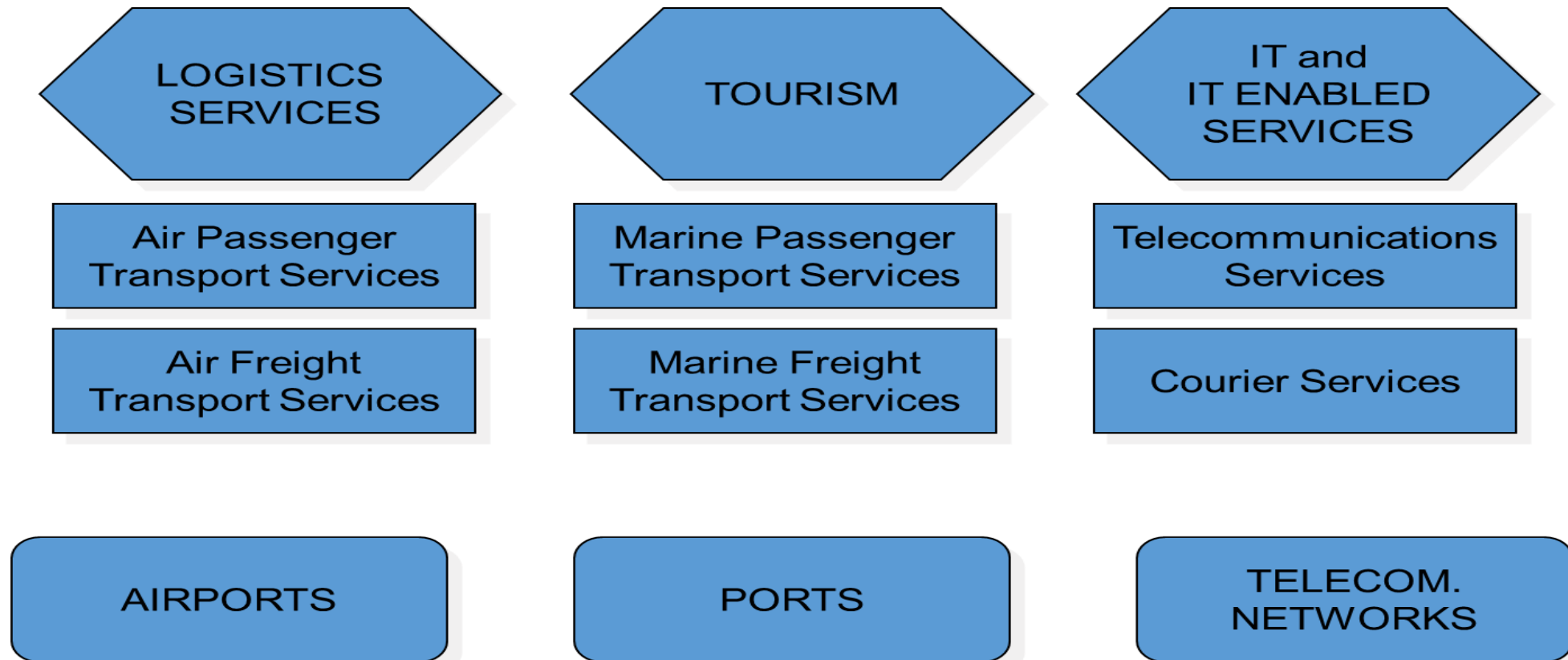
Shanghai Institutes for International Studies & Pathfinder Foundation



Starting point

- Small economy, within the Bay of Bengal System which is dominated by India
- High labor costs, small landholdings → focus must be on high-value agriculture exports
- High energy costs, relatively dense population → heavy industry (other than in specific locations) not supportable
- Service sector is already the largest, with significant comparative advantages in logistics because of location and efficient Port of Colombo, including the South Asian region's only deep-water facility
 - India's second largest container port; ranked 26th in world and handling over 70% Indian transshipment traffic

MSR was important to Sri Lanka then, and is now, especially in light of a possible services strategy



Specialized roles for Sri Lanka ports

- Unlikely that another container hub can succeed, unless Colombo is affected by Indian actions
 - Bigger ships (20,000 container ships coming on stream → consolidation of lines and ports
 - Maersk + Mediterranean Shipping Company (MSC) = 2M (28% market share) and CMA CGM (proposed to combine all three into P3 alliance)
 - Smaller ports losing regular container liner stops, e.g., Portland in US
- With a major refinery and associated industry Hambantota could play an important role at the “intersection” of emerging Northern routes to Kyaukpyu (& possibly Dawei and Bangladesh) and established Southern routes via Malacca & Lombok-Makassar straits
 - Current opportunity seen as vehicle transshipment port for factories in southern India
 - Interesting role as maintenance hub of SEA-ME-WE 5 cable
- Dry canals to link ports would be necessary

Airports

- BIA, located where economic activity and potential air passengers are highest, is at capacity and needs expansion
- MRIA is located in area of least economic activity and potential passengers
 - A combined tourism development and high-value agriculture strategy may be needed
 - Since fully liberalized, 7th freedom can be used by airlines registered elsewhere to develop innovative air-passenger and air-freight services serving Bay of Bengal region

New undersea (and terrestrial) cables → toward resiliency and lower costs

- Choke points and cable cuts are a major concern
 - Suez, Hormuz, Malacca, Taiwan Straits
 - Concerns mounting over intentional and unintentional cable cuts
- SEA-ME-WE 5 and other cables landing in Myanmar coast , to serve as alternatives to China's Pacific and other cables
- Bay of Bengal Gateway that goes by land to Penang; by sea to Colombo, by sea again to India/Oman and then by land exemplifies new model of resilient hybrid cables
- Asia Pacific Information Superhighway (APIS) initiative of UN ESCAP seeks to provide a solution

As resilience improves and costs decline

- More data centers will locate in Asia and latencies will decline to trans-Atlantic levels
- Smart cities and smart infrastructure will be adequately supported by redundant and plentiful ICT infrastructure

Required policy actions

- Infrastructure is mostly in place in Sri Lanka but more needs to be done in the Bay of Bengal region, which is coming into its own with the emergence of Myanmar as a linking country
 - Possible role for Silk Road Fund or AIIB working with UN ESCAP
 - Sri Lanka needs to execute its economic strategies properly
- Need to lock in policy changes through bilateral or preferential trade agreements

For MSR to succeed, it must support economic strategies of littoral countries

In the case of Sri Lanka, a gateway country to the Bay of Bengal and India, it will