Chinese-built port terminal in Sri Lanka makes waves

Success story of a deepwater port in Sri Lanka stands out in the controversy over Chinese-invested infrastructure projects

Ultra-large ships that would earlier bypass Sri Lanka's shallow ports now come calling thanks to the new terminal built by a Chinese company. Photo: SCMP Pictures

The waves licking the giant of a ship docked at Colombo's spanking new terminal in the crisp autumn noon cut a stark contrast to the lifeless swathe of the ocean on the other side marked for a controversial reclamation project stuck in the cross-currents of local and international politics.

Majority-owned by Hong Kong-listed China Merchant Holdings International (CMHI), Colombo International Container Terminals (CICT) may not get the headlines like its Chinese-funded twin next door, but it gets the job done. Unlike the stalled US$1.4 billion Colombo Port City, the CICT-run "South Terminal" is making the right kind of waves, raking it in for Colombo port like never before and transforming Sri Lanka into a regional shipping hub.

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"See that big cat over there?" points Tissa Wickramasinghe, general manager, commercial and marketing, at CICT. "It takes US$200,000 every day to keep it purring. That's the kind of daily operating cost we are talking about for ships of this size. Even an hour's delay means big bucks. That's why they come here, for the reliability of service and the geography."

Wickramasinghe's bragging rights are well earned. With world-class facilities designed to accommodate ultra-large ships - like the CMA CGM Marco Polo that the white-goateed Wickramasinghe is pointing to - the terminal has been a phenomenal success in attracting ships with capacity of more than 10,000 20-foot equivalent units (teu) that would otherwise bypass Sri Lanka's shallow ports. The 16,020 teu Marco Polo used to be the world's biggest ship before being overtaken by an 18,270 teu ship in 2013.

The site of the stalled Colombo Port City project. Photo: Debasish Roy Chowdhury

"The new facilities make it (Colombo) the only port in the South Asia region with a deepwater terminal that can accommodate the newest breed of 18,000 teu container ships. Higher efficiency and faster delivery times will attract larger vessels and higher volumes of trade," notes the Asian Development Bank in a recent report.

Colombo's new-found capacity to handle mega vessels is helping it to take on the transshipment role traditionally performed by ports in Malaysia, Singapore and Dubai. Being much closer to the lucrative India market than these hubs, Colombo is fast emerging as the region's port of choice. More so because most of India's own ports lack the depth or the infrastructure to handle big vessels, making a Chinese port operator the unlikely winner from rising India trade.

Tissa Wickramasinghe

CMHI holds an 85 per cent stake in CICT while the rest is held by the Sri Lanka Ports Authority. CMHI bid for the project at the peak of Sri Lanka's civil war in 2009, when not many foreign investors were interested in the country. Its US$500 million investment in the terminal makes it one of the largest foreign direct investments in Sri Lanka and the largest project run by a foreign company in the country. **Growth spurt**

Receiving more than 100 ship calls a month, the South Terminal handled one million teus in the first eight months of the year, after notching up 686,600 teus last year, its first year of operation. "That's a huge achievement for any terminal anywhere in the world. The target is 1.3 million teus this year and 2.4 million teu in two years, which is the planned capacity of this terminal," says Wickramasinghe.

Last year, after becoming operational in April, CICT helped raise Colombo port's total annual throughput by 14 per cent to 4.9 million teus. That compares with the port's compound annual growth rate of 1 per cent in the previous four years. The growth spurt helped Colombo rise three spots to 30th on the *Journal of Commerce*'s ranking of global container ports. When the terminal hits full capacity, Colombo will zoom into the top 20.

CICT's importance to Colombo, however, goes beyond just adding capacity, says Mark Szakonyi, maritime expert and an executive editor at the *Journal.*"In a transshipment market plied by increasingly larger vessels, the terminal gives the port a chance to stay competitive," he says.

During his trip to the country in September last year, President Xi Jinping visited South Terminal, described by Xinhua as "a flagship project under China's 21st century Maritime Silk Road initiative". But CICT's feat makes it stand apart from almost every other China-funded infrastructure project in Sri Lanka, where Chinese investments have come under scrutiny since a change of government this year as the new administration associates them with the corruption-tainted previous government of China ally Mahinda Rajapaksa.

Deep south in Hambantota, Chinese companies built a port in Rajapaksa's family constituency. It quickly acquired the reputation as one of Rajapaksa's biggest white elephants, failing to attract enough ships to cover even the operating costs.

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South Terminal is also a class apart from the adjacent indigenous terminals. While the Chinese-invested terminal goes from strength to strength, traffic at the state-run terminals is down 13 per cent from last year while that at a nearby private terminal is down 15.5 per cent.

New growth engines

But the starkest contrast is next door, in the shape of a stalled Monaco-sized reclamation project that has become a bone of contention between China and Sri Lanka since the new government pulled it.

Financed by state-owned and Hong Kong-listed China Communications Construction Co and executed by its subsidiary, CHEC Port City Colombo, the project became a major election issue as a symbol of Rajapaksa's alleged greed and subversion of government procedures to favour Chinese investors. Nearly a year since his ouster, it is yet to get off the ground.

Large vessels docked at Colombo's South Terminal. Photo: SCMP Pictures

Like Colombo port, CICT is transforming its owner, CMHI, providing it with a fresh revenue stream at a time when ports are at a low ebb at home. The company's first-half net profit jumped 29 per cent to HK$2.78 billion year on year while revenue climbed 4 per cent to HK$4.08 billion, with a fifth of the throughput handled by the company coming from overseas ports.

Apart from port interests in the mainland, Hong Kong and Colombo, CMHI has a 49 per cent stake in French port company Terminal Link that operates 14 terminals across the world. Recently it joined a Chinese consortium to take a controlling stake in a port in Turkey, and is now eyeing a port in Lithuania.

"We expect the throughput at Chinese ports to see only single-digit growth in the next few years amid the economic slowdown," CMHI chairman Li Jianhong said at the half-yearly results briefing. "For us, overseas projects will become more and more important and our key growth engine."

Outperformer

South Terminal, which CMHI built in 28 months rather than the scheduled 60, may in fact be growing too fast for its own good. The government, while acknowledging its stellar performance, has started asking for a bigger bite of its takings.

CMHI's success gives it a better chance of winning the bid for the planned new "East Terminal", Ports Minister Arjuna Ranatunga has been quoted by local media as saying. But the catch is, CMHI has to reduce its stake in South Terminal as the new government wants to give the state a 51 per cent stake in public-private joint ventures, reversing Rajapaksa's policy of offering majority stakes in such projects.

Talks are said to be on between the government and CMHI over giving the latter a 49 per cent stake in East Terminal in lieu of a reduced stake in South Terminal, but neither side is ready to divulge the nature and status of the negotiations. Commerce apart, there are wider geopolitical issues at stake.

India, increasingly concerned about a Chinese presence in its relatively less guarded southern flank, has also said it wants its companies to "become stakeholders in Colombo port's expansion" given the large amount of Indian cargo that goes through the port.

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Two Chinese submarine calls in Colombo last year alarmed New Delhi and are understood to have been the final straw in India's relations with Rajapaksa, already strained over his ties with China.

Wickramasinghe is mum about the state of negotiations but insists that whatever the final outcome, it would be best if CMHI retained project management control of the terminal.

"The government terminals employ 8,000 people and handle two million teus. We are approaching 1.3 million teu with 1,000 workers. Ours is not an employment generating agency and we intend to keep it that way," he says.

Endless tea breaks

Keeping productivity up has not been easy for the Chinese company in a country with industrial norms and work culture very different from home.

"In Sri Lanka, there are so many breaks. Workers want a tea break every couple of hours. That's very different from China, where port workers put in long hours and often take their meals at the site itself to minimise work interruptions," says chief operations officer Ray Ren in his sprawling office at the CICT building on the terminal.

"But we have created an incentive system in which nearly half the salary is linked to performance. This is similar to the comprehensive indicator system we have in China."

The soft-spoken Shenzhen native has also had a tough time keeping myriad unions at bay.

"We have established an elected employee committee that can raise labour issues with the management. That eliminates the need for unions, which are driven more by politics than labour welfare. We try to convince workers that they don't need unions."

How long Ren will prevail over workers in a democracy with a long tradition of port unions is anybody's guess. But for now, no tea cups are in sight even as the sun is beginning to soften. The waves - by now light orange - are still at it, savouring the giant feast, as a new batch of workers start arriving for their share.

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