

## External Challenges to Shipping Hub Status of Sri Lanka

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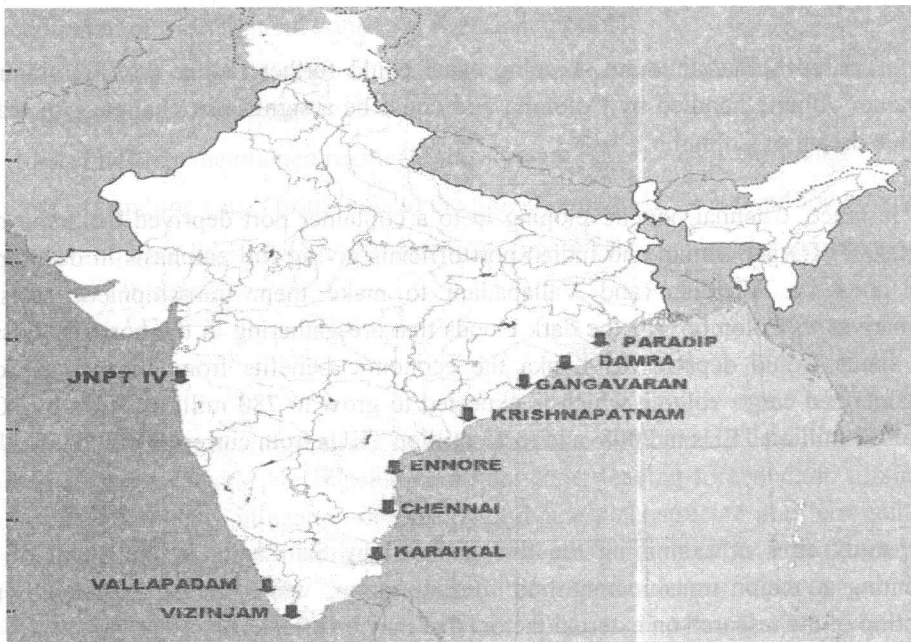
**Key words:** External challenges, Shipping Hub status, New Indian ports, Transshipment cargo, Port development models.

### Introduction

Among others, Sri Lanka has identified that achieving a shipping hub status similar to that of Singapore in the South Asian region is the way forward for rapid economic development. According to the plans in place the shipping hub status is expected to be achieved by expanding the transshipment services offered by Colombo port and growing beyond merely transshipment hub for India.

However, one may foresee several challenges to this plan and one such is the enthusiasm in the neighboring countries to build new ports and developing existing ones. Among those, the keen interest shown by India to develop ports is a major concern and could cost Sri Lanka 80% of its transshipment container volume.

Picture 1. New Indian ports.



Source: Google maps

These ports aim at stopping Indian cargo being transshipped via Colombo by attracting main line vessels to these newly developed Indian ports. As a consequence, transshipment volume at port of Colombo has seen reducing over a few years.

Table 1. Indian container volume and volume transshipped at Colombo (TEUs)

Year	Colombo total T/S volume	% change over the previous year	Indian total volume	Transshipped at Colombo	
				TEUs	%
2006	2,449,500	36.6 %	6,141,148	842,973	13
2007	2,468,661	9.7 %	7,398,211	883,094	11
2008	2,785,422	12.83 %	7,672,457	1,030,731	13
2009	2,633,055	-5.47 %	8,035,849	976,428	12
2010	3,095,589	17.57 %	9,752,908	1,193,627	12
2011	3,123,828	0.91 %	10,045,495	1,295,747	12
2012	2,996,000 (estimated)	-5.1 %	-	-	-

Source: CASA, SLPA & World Bank

The proposed Sethusamudram shipping canal could further reduce the transshipment container volume handled by Colombo and could be a significant challenge to realise the hub dream of Colombo.

For instance, Chennai port developing in to a container port deprived Colombo over 800,000 TEUs per annum and Indian port officials giving full emphasis in developing new ports i.e. Vizinjam and Vallapadam to make them transshipment ports as alternatives to Colombo, are the dark clouds that are gathering in the horizon. Loss of hub status would deprive Sri Lanka the economic benefits from enhancing global containerized cargo volume which is expected to grow to 780 million TEUs by 2015, from 530 million TEUs in 2008 and to 15 million TEUs from current 9 million TEUs in India.

This study aims at examining the threats faced by Sri Lanka in the intent of her becoming a major transshipment hub in the region, while focusing the particular attention of the research on external factors that may be effective.

## Data and Methodology

The theory of Competitive Advantage proposed by Michel Porter in 1985<sup>9</sup> was adopted as the conceptual framework for this study. Methodology adopted was the comparative analysis of historical data against current data, maintained by marine-organisations in India and Sri Lanka. Three main external challenges, namely, Indian port development, trend of Colombo's transshipment volumes, and Sathusamudram Canal Project, all associated with India, were taken into account in this analysis..

Secondary data sources were relied upon as the collection of primary data pertaining to the two countries and over 13 sea ports was not feasible. Thus, secondary data on container throughput of existing and newly developed Indian ports, data on Colombo transshipment containers maintained by feeder companies and domestic container data maintained by Sri Lanka Ports Authority (SLPA) were gathered.

## Results

Analysis of these data and other information shows that the growing Indian ports in particular will have the potential of affecting Sri Lankan ports significantly.

Though Sri Lanka is endowed with a multiple trade-conducive factors to become a maritime hub, and thus placing the country in a relatively competitive advantageous position, the combined effect of the above external factors would imply:

- reduction of transshipment volume at Sri Lankan ports.
- consequently, high investment made on developing Sri Lankan ports accruing an economic loss to the country.
- loss of hitherto maintained regional transshipment port status by Sri Lanka
- loss of handling cargo from India to the tune of around USD 200 million annually.
- main shipping lines dropping Colombo in favour of Indian ports, entailing loss of ancillary business.

## Conclusions

The study concludes that the impact of these factors could be profound, and could also lead to Sri Lanka losing her transshipment hub status leading to economic loss to the country through under utilization of existing and newly constructed port terminals, and that a "hybrid approach" (making the country *en masse* a hub rather than developing a single port hub) coupled with change of the hitherto-practiced port development model

<sup>9</sup> Vide Porter, M.E. (1985). *Competitive Advantage; creating and sustaining superior performance*, Free Press, New York, 1985.

could possibly help Sri Lanka facing these external challenges. Sri Lankan strategy should essentially focus on helping the industry face such challenges, through sustained attractiveness to shipping lines, possibly by way of ensuring flexibility, efficiency and expeditious decision making. Such would afford opportunity for the main shipping lines to re-group around Colombo and other Sri Lankan ports, and could ensure continuation of hub status.

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