

Jul 31, 2016

China Tells Sri Lanka: We Want Our Money, Not Your Empty Airport

[Wade Shepard](#)

Contributor

I travel to emerging markets around Asia and report on what I find.

Opinions expressed by Forbes Contributors are their own.

Sri Lanka has a debt problem. After more than a decade of taking out huge loans to build large-scale infrastructure -- most of which hasn't yet produced adequate returns -- the country is now struggling to make payments, and is looking for another way out.

A potential exit strategy was to offer China [debt for equity swaps](#), which Sri Lanka's [Prime](#) Minister Ranil Wickremesinghe [recently proposed](#) to China's Ambassador Yi Xianliang. China was offered varying degrees of control over some of Sri Lanka's biggest infrastructure projects, including Mattala [International Airport](#) and portions of the Hambantota deep sea port, and Sri Lanka would receive some debt relief.

China's response to this offer was publicized earlier today in Colombo's *Sunday Times*: [We're not interested](#). The Chinese ambassador replied that "it was not possible according to China's laws."

However, China was clear that it extends its "fullest cooperation" and that such deals should be conducted via investors on proper commercial terms.

This point is key: while China's government will not swap debt for equity they will help clear the road for Chinese companies to take over key projects in Sri Lanka. IZP, a Chinese informational technology company, has been put forward as [a potential purchaser of Mattala International Airport](#), while COSCO is looking into [expanding operations at the Hambantota deep sea port](#).



Not a passenger in sight. It is still the morning and no more flights are to arrive or depart. Mattala International Airport may just be the world's emptiest. Image: Wade Shepard.

The problem, both for Sri Lanka and for any would-be investor, is that many of the large projects in question are losing money fast, and may ultimately prove to be economically unsustainable -- at least without a massive amount of additional investment, more infrastructure, and a miracle or two. With just two flights per day, Mattala International is more than likely the [most underused international airport on the planet](#) and the Hambantota port is also running at severe under-capacity, while the brand new and fully modern highways that run through this region are mostly devoid of vehicles.

However, not all hope is lost for these projects -- yet. Although China declined a debt for equity swap, their participation in Sri Lanka's infrastructure development is more than likely just getting started. [Colombo Port City](#) has been green-lighted once again and just last week [China requested 15,000 acres of land in](#)

[Hambantota](#) for the building of a massive, million worker special economic zone. The latter seems to run flush with the original Hambantota idea:

"If you're going to have a bulk port you need to have industry around the bulk port to take advantage of it," said Deshal de Mel, a senior economist at Hayleys Plc in Colombo. "That is where the whole idea comes from; that we'll have industry coming in to kind of match up to the port. So the shipping port can still be made to work if they can get the right industries to invest in it."

[Sri Lanka's debt situation is severe](#). The country is currently in \$58.3 billion deep to foreign financiers, and [95.4% of all government revenue](#) is currently going towards paying back its loans. This means that out of every hundred dollars the government brings in only \$4.60 is going towards essentials like education and public services.

Beyond China, Sri Lanka has [called for proposals](#) from investors worldwide who may interested in taking on their Hambantota projects, just in case you're looking for a challenge.

<https://www.forbes.com/sites/wadeshepard/2016/07/31/china-to-sri-lanka-we-want-our-money-not-y-our-empty-airport/#5d8ea5551beb>