

CHINA PORTS UPDATE:

Seven DEVELOPMENTS to WATCH

It's hard to keep up with the pace of change at China's seaports, but understanding the issues affecting those ports will help take the risk out of your China logistics strategy.

By John Kerr

Here's an interesting statistic: The world's largest municipality isn't Tokyo or Sao Paulo or Seoul. It's Chongqing, a metropolitan area of more than 30 million people in the middle of China.

That's a noteworthy number by itself. But it's all the more notable for what it means to logistics managers tasked with charting freight movements to and from China. Situated about 1,300 miles inland, Chongqing already is a massive and highly diversified manufacturing hub. As such, the city will become an increasingly important export source for everything from automotive parts and chemicals to electronic components. Most of that output will travel down the Yangtze—which helps explain why Shanghai, at the river's mouth, is tipped by some sources to become the world's largest port by 2007.

When so much about China's economy is changing so fast, it's understandable if logistics managers are struggling with how to plan optimal routes in and out of the country. That's especially true when it comes to considering which ports to use. "Nowhere is the pressure of increased trade with China felt more than within China's port structure," says a new report by Jon Monroe Consulting.

There are four general clusters of port activity in China: the Bohai Delta near Beijing in the north; the Yangtze River Delta (YRD) in the east; the Pearl River Delta (PRD) to the south; and the key inland ports, such as Wuhan and Chongqing, on the Yangtze. It's crucial for shippers to understand what's really happening in those regions. There are at least seven key factors that are affecting China's port development and provide a framework for such understanding. First, though, it's worth glancing at the big picture.

The steady shift of manufacturing to China is propelling

port growth at tremendous rates: 2005 cargo volumes were expected to reach 4.8 billion tons, a 15 percent increase over 2004. Shanghai alone was expected to handle 18 million TEUs in 2005, and projections from China's Ministry of Communications call for the port to handle 100 million containers in 2010.

Investments in port infrastructure continue to pour in, increasingly from private funds. But China's government is well aware of the important role it must play in this area. "In China, they regard port development as part of their export strategy," observes Philip Damas, a research director at Drewry Shipping Consultants Ltd.

It's easy to become distracted by the torrent of ebullient statistics and to develop some misconceptions as a result. A review of the seven factors affecting port development can help restore an accurate focus.

Government mandates

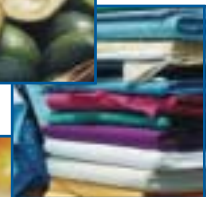
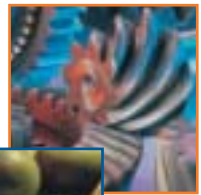
Given the pace of liberalization of China's economy, it would be reasonable to think that private-sector efficiencies now prevail and shippers are free to choose which ports they use. Not so, says Paul French, founder and marketing director of market intelligence firm Access Asia. He points out that Shanghai's regional government recently surprised business executives by decreeing that all Asia-Europe shipping services will have to use Yangshan, the new port under construction near Shanghai. Similarly, observers expect the government will designate the northeastern port of Dalian as the nation's primary conduit for car imports. The upshot: Despite free-market activity in investments and infrastructure development, China's authorities still rule with an iron hand.

IN 1972 CHINA DELIVERED THE FIRST PANDA BEARS

TO THE U.S.A.



TODAY OUR PANDA DELIVERS TO THE WORLD



COSCO has been providing both efficient and on-time service since 1961. Now with more ships and more direct ports than any other single carrier **COSCO** has grown to be one of the largest Ocean Container Carriers worldwide. Cargo handling capabilities include 20-ft and 40-ft

dry containers, refrigerated containers, flat racks, open tops, high cubes and other specialized equipment.

COSCO's E-Commerce, InfoLink voice response system and **Cargo Tracing** System allow you to track your shipment until it arrives at your destination.



THE MOST FAMILIAR FACE IN CONTAINER SHIPPING.



COSCO North America, Inc. 100 Lighting Way, Secaucus, NJ 07094 USA

Tel: 800-242-7354 Fax: 201-422-8928

InfoLink 1-800-967-7000 www.coscon.com

SHIP WITH CONFIDENCE, SHIP WITH COSCO



Shippers should expect that kind of control under a Communist regime, where government mandates are the standard operating method, says French.

Patterns of trade

In China, manufacturing is shifting north and west. The country's "Go West" policy is designed to bring prosperity to heartland cities such as Chongqing; the colossal Three Gorges Dam project, due for completion in 2009, is a key element of that plan. At the same time, the YRD is becoming a focus for many new manufacturing initiatives. And Beijing's "Dong Bei" strategy—"Revitalization of Northeast China"—is encouraging investments from global players in the automotive, pharmaceutical, and electronics sectors.

The Yangtze River corridor is the region to watch. For the most part, barge fleets and handling equipment are archaic, and as recently as 2000 there were no container facilities along the Upper Yangtze, according to Jon Monroe Consulting, which recently sent a team on a fact-finding journey down the river from Chongqing to Shanghai. However, Monroe notes that as many as 10 new terminals are nearing completion along the Yangtze.

Attention is indeed shifting westward, yet caution is still the watchword. "Inland transport costs in China are very high. Once you move into the interior you have a shortage of infrastructure," says Drewry's Damas. "U.S. shippers have to study in great detail the trade off between higher logistics costs and lower manufacturing costs."

Intermodal connections

Many Chinese ports lack adequate feeder systems, particularly multimodal transportation links, notes Ellen Hu, a partner in the Beijing office of Mercer Management Consulting. A case in point is the new Yangshan deep-water port near Shanghai. Its first phase opened late last year, and the port will soon be rated to handle 2.2 million TEUs per year. On completion in 2020, Yangshan's 52 container berths will be capable of moving 20 million TEUs annually. Yet despite the press releases trumpeting completion of a 20-mile bridge linking Yangshan's offshore islands to the mainland, there is little information about plans for rail or road networks to service the huge port. Access Asia's French lays some blame on China's Ministry of Railways, which he describes as "sleepy" and prone to inaction.

Alignment between port authorities

Shippers are mistaken if they believe that the overall efficiency of China's ports is keeping pace with the capital investments in those ports' development, says Tian Zhang, Shanghai-based principal with A.T. Kearney. "Our experience with some ports is that shippers will often need to repeat several approval processes with different organizations, filling in very similar information," he says. He cites the example of port management reporting to the

China Ports Stats Sheet

- 10 of the world's top 50 ports are in China
- China's total port capacity exceeds that of the United States
- China handles about one-quarter of all containers in global transport
- Shanghai is tipped to become the world's largest port by 2007
- Shipping on the Yangtze River is growing by up to 25 percent a year
- The Yangtze could move up to 300 million freight tons by 2010—a 50 percent increase over 1999

Sources: Transport Intelligence Ltd.; Jon Monroe Consulting; Xinhua news agency

Communications Ministry while customs offices are linked to the National Customs Bureau. "It is very difficult to get these organizations to work together," he observes. The takeaway: Shippers must be aware of the bureaucratic structure at each port they are considering.

Container security

For U.S. importers, complying with U.S. Customs and Border Protection (CBP) regulations and recommendations is a top priority. So it is worth noting that in June, CBP announced that the port of Shenzhen had joined its Container Security Initiative (CSI). Hong Kong and Shanghai are already part of that program, which allows for pre-shipment inspection of high-risk containers. Security issues are not about to diminish anytime soon, so it will remain important to assess the freight-

screening capabilities of all Chinese ports, even if they are not participating in CSI.

Profit patterns

Logistics managers would do well to see who has control of what—and who's making the most profits as a result. Several shipping lines are thriving on the China trade: COSCO saw its first-half 2005 net profits more than double compared to the previous year. "The shipping sector is experiencing a boom on the back of growth in trade with the Chinese market," notes the *China Logistics Report* from analysts Transport Intelligence. Similarly, port ownership is in flux, with some reported pushback by Chinese authorities against perceived expansion of control by private investors. This situation bears watching: Ocean carriers, such as COSCO and Maersk, are also active in port operations, and excessive influence by any one operator could limit logistics pros' negotiating room.

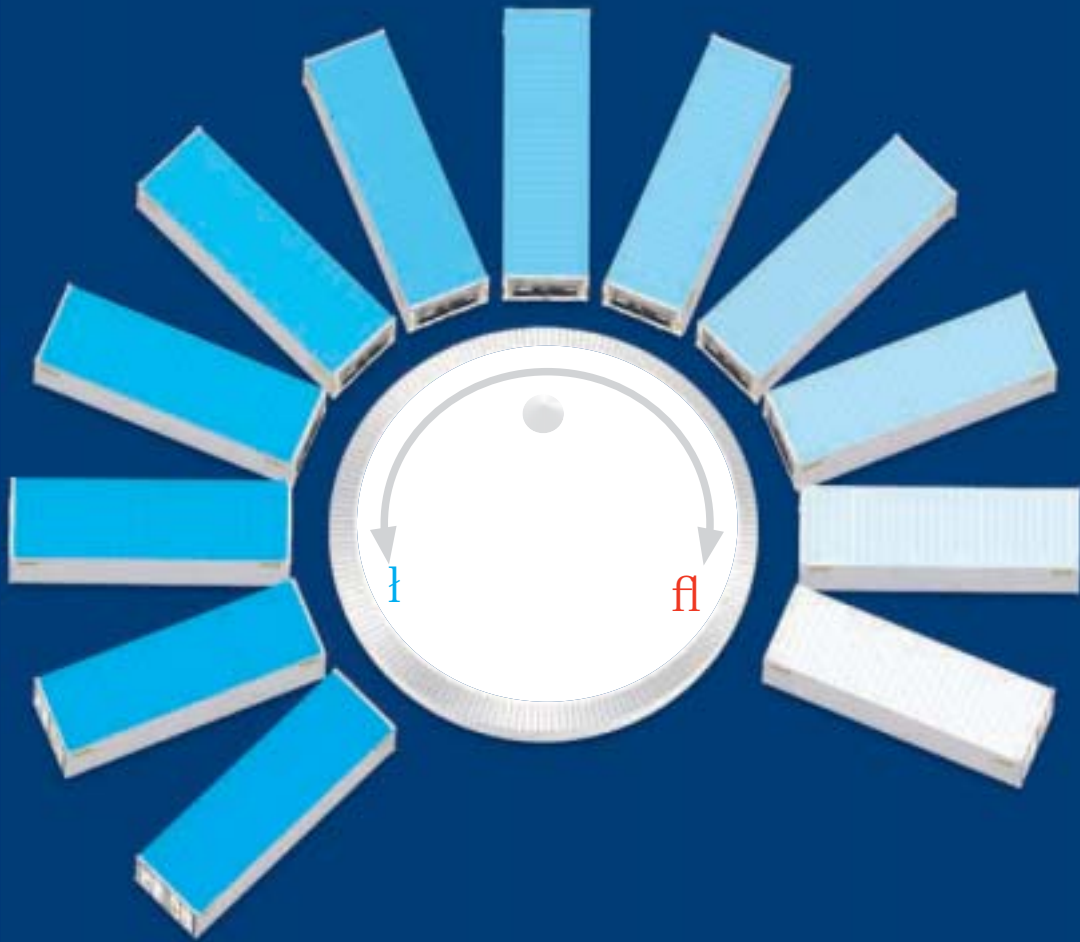
Currency appreciation

With its ballooning trade surplus, the Chinese government is concerned that international pressure will force a more significant revaluation of the renminbi, the nation's currency unit. If that happens, it would quickly affect the balance of trade and thus traffic through the ports. Logistics managers should therefore include currency-risk scenarios in their plans.

So far, doing business in China has been a wild ride for logistics professionals. Even if the nation's export growth slows, as many economists predict, the ride will still be plenty exciting.

It's clear that despite all of the government oversight, China is still hyper-competitive, with some of the world's most modern container facilities and with robust expansion plans. The trick for U.S. shippers will be to stay alert to the issues that affect Chinese ports' value as gateways—and to plan accordingly.

Business journalist John Kerr frequently writes on international supply chain issues.



MORE REEFERS, MORE CONTROL

Our commitment to shippers of temperature-controlled cargo has never been stronger. Our investment in state-of-the-art reefers ensures you have the equipment you need, when you need it. For expert information, contact your local CP Ships representative.



cpships

www.cpships.com