

PROSPECTS FOR PORTS IN SOUTHEAST ASIA: RISING TO THE CHALLENGES OF CHINA'S EMERGENCE AS AN ECONOMIC SUPERPOWER

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ABSTRACT

The emergence of China as an economic superpower has boosted global trade tremendously. Southeast Asia, a major trading partner of China, stands to benefit from the latter's huge demand for commodities and merchandized goods. This paper traces the impacts that China's rise has had on the development of ports in the region and evaluates the impending challenges that these sectors will face in the face of increasing trade fuelled by the thrust of China's economic progress. It argues that to tap into China's booming trade, ports in the region need to increase their level of competitiveness and the shipping sector needs to expand in tandem to facilitate greater containerized transportation going into and coming out of China. This paper aims to provide an outlook on the challenges and prospects for ports in Southeast Asia (SEA) in relation to China's continued economic growth to facilitate greater trade between the region and the world's newest emerging superpower.

*"I have witnessed the tremendous energy of the masses.
On this foundation, it is possible to accomplish any task whatsoever"*
(Mao Zedong)

THE RISE OF THE DRAGON: CHINA'S ASCENSION AS A SUPERPOWER

When Mao Zedong penned down these thoughts in his Little Red Book, little would he have thought that those words will reverberate into the 21st century, aptly describing China's rise as the world's newest powerbroker. The emergence of China as a superpower-in-waiting, on the same foundation of the energy of the masses phrased by Mao, is one of modern history's most endearing and stunning success stories.

Since the Chinese leadership shifted the world's most populous nation's economic policy from a centrally planned to a market-oriented one, China has seen the kind of economic boom that has almost defied economic theories. Growth has been relentless, powered by tremendous agricultural and industrial outputs and huge foreign investments. In coastal areas especially, growths have averaged about 10% annually for many consecutive years.

China's GDP reached 9.5% valued at USD1.65 trillion in 2004, fuelled by strong domestic demand and foreign investment, and high levels of exports.¹ In the same year, its export values grew 33% while its imports grew 26%.² China's booming trade fuelled the growth of world merchandise export to 13% in 2004, compared to 6% in 2003.³

Amidst these remarkable statistics, analysts have issued warnings of economic overheating and hard landing of China's stunning growth. Nevertheless, the Chinese economy has shown no sign of slowing down. To the credit of the Chinese government, it has initiated various measures to cushion the economic and social impact of the economy's breakneck growth. Towards this end, it has undertaken various measures to improving and strengthening macro-economic regulations and reforming businesses, along with social development programs, to create a harmonious society amidst the new riches.

No doubt there have been problems arising from managing the transition and explosive growth in what is popularly termed as "socialist market economy", but China seems poised to experience continued rapid economic growth in the years ahead, albeit perhaps at a less dramatic rate. China's leadership has taken note of the need to maintain the momentum of rapid growth in a stable manner, which should put it on a solid track to sustain the rapid economic growth for many years to come.

CHINA'S RISING TRADE WITH SOUTHEAST ASIA

China's increasingly huge demand for international trade is one of the major factors fuelling growth in the global economy. Its growing economic stature, combined with the sweeping forces of liberalization and globalization, have significantly facilitated greater global trade, opened up economies and fueled consumer demands in an unprecedented scale. The combination of these forces has spurred international trade dramatically over the last few years.

Barring sharp economic turnarounds and political turmoil, China is expected to continue to power the engine of international trade in the years ahead. This pragmatic prognosis presents a healthy outlook for the Southeast Asian region. China's burgeoning international trade with the region, its fifth largest trading partner, has had an indelible impact on the region's economies.

Statistics from the Association of Southeast Asian Nations (ASEAN) Secretariat shows that China-ASEAN trade volume has been on an up-trend over the past decade (see **Table I**). In 2004, the trade volume between the two surpassed USD100 billion for the first time.

Table I: China's trade with ASEAN, 1993-2003 (USD million)

Year	Export	Import	Total
1993	4,528.69	4,336.36	8,865.05
1994	5,303.82	5,758.99	11,062.81
1995	6,200.89	7,129.72	13,330.61
1996	7,474.13	9,217.62	16,691.75
1997	9,167.89	13,482.88	22,650.77
1998	9,202.59	11,211.54	20,414.13
1999	26,472.38	19,408.00	45,880.38
2000	35,034.66	26,480.91	61,515.57
2001	31,552.09	23,833.07	55,385.16
2002	19,547.55	23,212.23	42,759.78
2003	27,044.23	28,272.24	55,316.47
2004	42,900.00	63,00.00	105,900.00

Source: SOUTHEAST ASIAN Secretariat, Xinhua News Agency

China-ASEAN trade relations are set to enjoy brighter prospect with the China-ASEAN Free Trade Agreement which is expected to be implemented in 2010.⁴ The initiative, which will lead to the creation of the world's largest free trade zone, is projected to double trade volume between the two.⁵ This historic pan-Asian trade pact is poised to rival the US and European Union as a trade bloc of significant clout and size.⁶

THE BOOM OF PORT DEVELOPMENT IN CHINA

No discussion of China's *tour de force* economic performance would be complete without taking a look at its maritime strengths and port development as a majority of its international trade is transported by sea.

China has been ranked as the fourth most important maritime nation by way of number of merchant fleet (2,612 vessels) and its 6.77% contribution to the world's total tonnage, as of 1 January 2005.⁷ At the end of 2004, it commanded 6.2% share of world trade generated in terms of value.⁸ In a matter of a few years since it opened its economy after the Cold War ended, China has also emerged as the world's third largest trading nation.⁹

The growth in its international trade has had a tremendous impact on the growth of its port sector and has got the nation's planners in a hurry to continue expanding its port capacity to support trade and container traffic growth. This has become a matter of national interest as the coming years promise to see China sustaining strong trade performance. This is expected to boost its cargo base, especially from the manufacturing sector, and demand more of its port and shipping services.

The Chinese government is giving top priority to develop its ports under its 11th five-year development plan to support the country's breakneck economic growth. The plan lays down a systematic strategy to develop its ports and huge amount of funds have been allocated for this purpose.¹⁰ Plans are afoot to pit Chinese ports to compete directly with other Southeast Asian regional ports such as Port of Singapore for Asian regional transshipment cargos. For example, Shanghai Port has been earmarked as a potential transshipment port to tap into its populous hinterland and huge domestic market.¹¹ The construction of new ports are also in the pipeline, such as the 3-million TEU capacity deepwater port in Yangshan aimed at providing spare capacity for the predicted growth in the Yangtze River Delta, a major trading artery in China. Projected to cost USD16 billion, Yangshan is expected to be the world's largest container port upon its completion in 2020.¹²

Today, as a result of the economic boom across Asia, no doubt galvanized by escalating trade with China, 14 of the world's top 20 container terminals are Asian-based (see **Table II**).¹³ Impressively, five of these terminals are located on mainland China, underlining the rapid growth of its trade and economy and its growing clout as a maritime power.¹⁴

The inclusion of Chinese ports in the list underscores the rapid growth of the nation's port throughput and maritime trade, displacing the position of Kobe and Yokohama. Their growth rates have also far outstripped other more established Asian ports, underlining the trade and economic development of the nation. Even Hong Kong which has maintained its position as the world's busiest port since 1992 has been growing at a lower rate compared to Shanghai and Shenzhen ports which experienced increased throughput by more than threefold from 1999 to 2004.

Leading the explosion of growth of Chinese ports was Ningbo Port which notched the highest percentage gain in 2004. The port has been growing at an astounding average growth in TEU traffic rate of 44% for the last six years.¹⁵ Shanghai port is projected to be the biggest hub port in East Asia and to serve as China's distribution and logistics services base for global trade. The concentration of cargo base and increasing foreign direct investment (FDI) has made Shanghai outpace other areas of growth in the country. It is expected to handle a capacity of 25 million TEUs by 2010, double the volume handled in 2004.

Table II: Top 20 container terminals and their throughput, 2002-2004 [in million TEUs(twenty equivalent unit)]

Rank	Port	2002	2003	2004
1	Hong Kong (China)	19.14	20.82	21.93
2	Singapore	16.94	18.41	20.60
3	Shanghai	8.81	11.37	14.57
4	Shenzen	7.61	10.70	13.65
5	Busan	9.45	10.37	11.43
6	Kaoshiung	8.49	8.81	9.71
7	Rotterdam	6.52	7.10	8.30
8	Los Angeles	6.11	6.61	7.32
9	Hamburg	5.37	6.14	7.03
10	Dubai	4.19	5.15	6.43
11	Antwerp	4.78	5.44	6.06
13	Long Beach	4.52	4.66	5.78
12	Port Klang	4.50	4.80	5.24
14	Qingdao	3.41	4.24	5.14
15	New York	3.75	4.04	4.40
16	Tanjung Pelepas	2.67	3.50	4.02
17	Ningbo	0.00	2.77	4.00
18	Tianjin	0.00	3.01	3.81
19	Laem Chabang	2.66	3.18	3.62
20	Tokyo	2.71	3.28	3.58

Source: UNCTAD, Review of Maritime Transport 2005

Besides container port, other types of terminal are also being commissioned to facilitate China's emerging energy needs and growing demands for bulk commodities like iron ore and grains. The largest Chinese facility to unload Very Large Crude Carrier (VLCC) vessels is being constructed in Dalian, equipped to serve six refineries with a total capacity of 46 million tons.¹⁶

Chinese ports have also engaged in strategic alliances with foreign port management companies. The port of Dalian has entered into a strategic partnership with APM Terminals, Cosco Pacific and Port of Singapore Authority to develop the port to serve the northern region of China.¹⁷ Xiamen Port Authority has also signed an agreement with APM Terminals to finance the development of a new three-berth terminal estimated to cost USD350 million.¹⁸ These engagements underline the ambitions of Chinese ports to grow, in line with the explosive trade growth in the country.

Paralleling their tremendous growth, many Chinese ports reported record traffic increases in 2004, resulting in congestions in several ports. In August 2004, several Chinese dry bulk ports experienced congestions and China Shipping reported up to 20 vessels waiting for berths in Qingdao Port, a major bulk port.¹⁹ This was in spite of the port recording record

performances for discharging Cape-size vessels at a rate of 6,000 tons per hour.

The formation of economic clusters of regions has also contributed to development of Chinese ports. The economic regions include Yangtze River Delta, Pearl River Delta, Beijing-Tianjin-Hebei circle, the west region, central China region and northeast industrial region.²⁰

As more manufacturing base move from the south to the eastern and northern region of China, infrastructure development in this region has intensified. With the concentration of manufacturing activities in the Yangtze River corridor, the need for China to improve the connectivity between central China and its coastal ports becomes more critical. With the opening of Three Gorges Dam, container movement is expected to intensify in the area. River transportation and river ports are also given priority in infrastructure development to meet China's growing trade.

CHINA'S ECONOMIC AND TRADE GROWTH AND ITS INFLUENCE ON SOUTHEAST ASIAN PORTS

The tremendous growth of world maritime trade and transportation is currently being fueled by general global economic growth and China's fast multiplying for international trade volume. Such huge demand is showing no sign of abating. World seaborne trade grew significantly in 2004, reaching 6.76 billion tons of loaded goods.²¹ Clarkson Research Studies projected in its Spring 2005 report that the world container trade is set to grow by 10.0% in 2005 and 9.7% in 2006.²²

Simulated by China's economy, the world container trade is expected to grow larger. Much of this trade will trickle to the Southeast Asian region which is its major trading partner. This will no doubt result in greater throughput in the region's ports. China's robust economic and trade growth will contribute further to the increase in container traffic movement in ports in the Southeast Asian region, besides its own.

In many Southeast Asian countries, the China phenomenon has resulted in the investment and development of all sorts of infrastructure to support the explosion in trade with the country. At the forefront of infrastructure that enjoys the spillover from greater trade between the region and China are the ports, a critical facilitator of international trade. Better infrastructure and port supporting services, in turn, have become catalysts to greater demands and for more goods to be delivered faster and at cheaper costs between Southeast Asian nations, China and their other trading partners.

Many of the world's top ports handled record throughput in 2004, mainly fueled by the flood of Chinese exports to every corner of the globe. Reflecting ever-growing inter-regional trade, containerized trade between China and Southeast Asian countries is expected to grow across the board this year. This bodes well for port throughput and port development in the region. Regional ports such as Singapore, Port Klang and Tanjung Pelepas have benefited tremendously from the flourishing Chinese economy, recording substantial

growth in throughput, and are well-positioned to enjoy the patronage of Chinese trade.

China's surging trade has directly and indirectly resulted in significant changes in ASEAN ports. With ever-increasing international maritime container cargo movement in and out of China and the deployment of ever-larger container ships to accommodate this, several key hub ports in the region have upgraded their facilities, even building new ones.

The positive vibes from the joint efforts in regional cooperation between China and the Southeast Asian region will continue to drive the economic growth in the region. As it is, trade between the two is booming, so much so that ships calling at ports in the region were hit by delays and congestions. Much of this was attributed to the surging global trade volumes as a result of the thriving Chinese economy.²³ This underlines the critical need for the ports to expand and upgrade their capacity to accommodate the huge amount of trade with China.

PROSPECTS AND CHALLENGES FOR PORTS AND SHIPPING IN SOUTHEAST ASIA

There are few factors more pronounced, more dominant and more recognizable than China's rise in economic and trade growth. The impact of this ascent has exerted a noteworthy impact on trade, transportation, technology, business operations, economies and the development of seaports amongst its trading partners, more so a large one like the Southeast Asian region.

Lingering doubts over China's long-term commitments in the Southeast Asia region were allayed to rest with the ratification of the China-ASEAN accord.²⁴ The agreement is expected to provide access to duty-free goods to 2 billion people, which should augur well for trade between China and the region.²⁵ More so, the development is expected to have a positive impact on the growth of ports and shipping in the Southeast Asian region to facilitate the impending trade explosion.²⁶

There is an unmistakable trend for shipping lines to commission the construction of bigger container vessels to accommodate greater global trade, much of which is currently powered by China's economic growth and its goods transported by sea. This in turn has influenced ports in the Southeast Asian region to upgrade and improve their infrastructure to accommodate such ships. Investment on additional and deepening of berth is necessary to meet the increasing container movement in the region and to gain competitive edge in attracting shipping lines for direct calls and facilitate greater trade with China. Energized by strong performance in trade with China, ports in the region have also expanded and improved not only in terms of infrastructure and sophisticated equipment but also in the functions and business activities. Many have added and improved value added logistics and ancillary services to attract cargo moving in and out of China. Some regional ports have also entered into sister port agreements with their Chinese counterparts to boost connectivity and business amongst them.

The influence of the 'China factor' on the development of ports, a crucial facilitator of international trade, has been favorable and looks set to color the ports scene in the years ahead. Although the consequence of the impact may not be applicable to all the ports in the Southeast Asia region, some are notable for their magnitude and for mirroring global trends in port development. They include advent in shipping technology and practices, concentration of resources and processes, and door-to-door delivery stretching across the supply chain. These have been detrimental to the planning, organization, development, management and operation of seaports in the region.

Ports in SEA and in nations engaged in trade with China will have to acknowledge the fact that China is emerging as a major player in international maritime trade. As such, they must be prepared to keep pace with the infrastructure and resources to facilitate greater trade coming in and going out of China, if they do not want to be left behind in capitalizing on China's prosperity. Challenges are abound for port planners in the Southeast Asian region to plan their port development well, enhance infrastructure, keep updated with state-of-the-art technologies, increase productivity, organize operations efficiently, invest wisely and allocate resources effectively to cater to greater Chinese maritime trade volume.

If current trends are any indication, the next decade or so is poised to be an even busier period for maritime trade. As the Chinese and the world economy continue to grow and new markets are opened via trade agreements, global maritime trade will increase and exert its impact on port development. Ports, a crucial component of maritime transaction and a facilitator of international trade, will be expected to play an immense role amidst this challenging scenario. More so for ports in the Southeast Asian region whose own prosperity depends largely on international trade from a major trading nation such as China.

It is expected that with China's continuous rise as an economic powerbroker, the future development of Southeast Asian ports will be marked by an increasing need to adequately support greater cargo volume and cater to ships with bigger capacity and better technology. They are expected to be more involved in logistics services, undertaken either alone or via strategic alliances with logistics operators. Looking at the worldwide trend of ports' evolving role, ports in the region are seen to act more as transit points of cargos within the intermodal transport network than mere recipients, processors and distributors of cargos.

Beyond cargo trends, changes in many elements will continue to chart the direction and growth of ports in the Southeast Asian region and beyond. These include trade flow, economic development, government policies, cargo trends, shipping, technology, and IT, among many others. In keeping with these changes and ever evolving trends, Southeast Asian ports must move in tandem with the pace in order to remain relevant, viable and competitive.

It is likely that the pursuit for greater trade with China will exert influence on the role of ports in the region and the way they will be developed. It is foreseen that China's trade will result in significant changes in ports and shipping business. We will likely see among others accelerated integration of ports and

carriers, shifting towards door-to-door service and logistics solutions and the forming of alliances amongst carriers to achieve economies of scale. All these will have a huge impact on the way Southeast Asian ports are planned and run.

CONCLUSION

Barring any drastic, unforeseen circumstances, China's economy is expected to chart impressive growth in the near future and is likely to boost trade with the region even further. Southeast Asian ports are expected to record firmer growth in container volumes in years to come, boosted by regional trade as a result of the continued flourishing of China's economy. Ports in the region will have to keep up with this development and trends in order to gain competitive edge. ASEAN paved the way towards more integration, cooperation and a stronger nation. Individual countries would need to support this notion to reap the opportunity from the robust growth of China's industrialization and development.

With the increase in export and import trade between the Southeast Asian region and China, the role of maritime transport services in facilitating this trade growth will become more prominent. In coping with the robust growth, the shipping and port services must keep up to the challenge to be more dynamic. It is worthy to note that many main ports in the region are planning for expansion in terms of capacity and facilities to capitalize on the China boom. But China's economic ascent will continue to present a multitude of challenges for the regional ports to build and improve on the foundation, the kind envisioned by Mao, upon which greater trade can be accomplished between the two.

ENDNOTES

- ¹ 'China's economy grows 9.5% in 2004', *China Daily*, 25 January 2005.
- ² UNCTAD *Review of Maritime Transport 2005*, p. 2.
- ³ Ibid.
- ⁴ 'China, ASEAN to create trade bloc', CNN.com, 29 November 2004.
- ⁵ Bishop, J. 'China-ASEAN FTA to Boost Regional Integration – Merrill Lynch'. XFN Asia. *Philippine Daily Inquirer*, 1 June 2005. See, http://www.bilaterals.org/article.php3?id_article=2001 (accessed 16 June 2005).
- ⁶ 'ASEAN signs historic deal with China', *Guardian*, 29 November 2004.
- ⁷ UNCTAD, *Review of Maritime Transport 2005*, p.33.
- ⁸ Ibid., p. 52.
- ⁹ 'China's trade performance', US-China Business Council report, from www.uschina.org (accessed 30 November 2005).
- ¹⁰ Yeow, J. 'China link-up', *The Sun*, 14 November 2005.
- ¹¹ 'Ports of the Yangtze River Delta – Current Developments', *Asia Pacific Shipping*, August 2005, p.16.

¹² 'Shanghai keen to partner Singapore in port project', *Business Times*, 8 June 2004.

¹³ UNCTAD, *Review of Maritime Transport 2005*, p.76.

¹⁴ *Ibid.*, p. 76.

¹⁵ Firth, G. 'Critical eye on Ningbo'. *The China Business Review*. From <http://www.chinabusinessreview.com/public/0507/criticaleye.html> (accessed 29/8/2005).

¹⁶ UNCTAD, *Review of Maritime Transport 2005*, p.11.

¹⁷ *Ibid.*, p.79.

¹⁸ *Ibid.*

¹⁹ *Ibid.*, p.77.

²⁰ 'China's Emerging Region-based Economy Offers Huge Opportunities for ASEAN', *People's Daily Online*, 22 October 2005. From <http://english.people.com.cn> (accessed 18 November 2005).

²¹ UNCTAD, *Review of Maritime Transport 2005*. p.4.

²² Clarkson Research Studies (2005), *Shipping Review and Outlook*, p.69.

²³ Fang, N. 'Booming trade at PSA terminals', *Business Times*, 29 June 2004.

²⁴ The China-ASEAN pact heralds China's multilateral approach to increase its sphere of influence in the region via trade and economic cooperation. At the core of this strategy are free trade agreements such as the accord and regional financial cooperation among East Asian countries. See Kuik, C.C. (2005), "Multilateralism in China's ASEAN Policy : Its Evolution, Characteristics and Aspirations", in *Contemporary Southeast Asia*, Vol.27, No.1, April 2005, pp.102-122 for a detailed discussion on China's multilateral approach in its foreign policy towards Southeast Asia.

²⁵ Boyd, A. (2004), 'ASEAN, China all smiles for now', *Asia Times Online*, 3 December 2004. From www.atimes.com (accessed 30 November 2005).

²⁶ It has been argued that Southeast Asian nations are "bandwagoning" with China only to tap into its enormous trade potential and value maintaining cordial relations in cognizance of its potential to become a superpower. However, it would be hard to argue that China's actions in the region thus far have been anything but neighborly and that trade and economic initiatives involving ASEAN and China have not been beneficial to the regional economies.