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Is Vancouver Prepared for China's Return to the High Seas?

In China's history, the famous sea voyages of Admiral Zheng He in the 15th Century were a brief bit of open-seas adventure, quickly reined in as China gave up trading in frivolous exotics and turned its back on the world for the next four hundred years. Celebrations to commemorate the 600th anniversary of Zheng He's first voyage in 1405 are being held throughout China this year. His travels are a reminder that China knew bigness and high-tech long before skyscrapers and supermalls: eighty years before Columbus sailed to America on the 84 foot Santa Maria, Zheng He led seven voyages in 200-ship fleets with over 20,000 sailors. At over 400 feet, his flagship was four times the size of Santa Maria's.

Chinese historians date the last of Zheng He's voyages to the end of its superpower status. The celebrations this year, then, also mark China's economic and geopolitical resurgence. And it is not lost on China that this also coincides with its growing dominance on the high seas. While China still accounts for just 6.5% of world trade, it has a quarter of the world's traffic in containers. Eight of its ports rank among the world's top twenty in total tonnage; last year, Shanghai's port passed Rotterdam to become the world's biggest cargo mover, jumping from 238 million tons in 2002 to 380 million tons last year.

Unlike almost all other ports in the world, China's port authorities anticipated this massive increase in trade volume. And according to industry analysts, they have surpassed others in building infrastructure capacity to keep apace with growth. Even China has struggled: China's Ministry of Communications estimates that shipping demand at coastal ports was 2.7 billion tons in 2004, outstripping capacity by 500 million tons. But China's port authorities have succeeded in finding both government and private investors to fund long-term capital outlays, and construction has just kept picking up. Shanghai port authorities are currently undertaking a US\$12 billion project -- the Yangshan Port. This port will be fitted with 50 berths, capable of moving 20 million TEUs and will dock the latest generation of superships. By 2020, Yangshan, Shanghai, and surrounding ports will be the largest cluster of ports in the world by a very wide margin.

The Yangshan project is just the biggest of the projects underway in China. The Chinese government's 10th Five Year Plan aims to expand throughput capacity of its ports by 2.6 billion tons and add 50 container terminals capable of handling 16.5 million TEUs, as well as new terminals for cargo and oil storage. As shipping activity picks up, so do other maritime sectors: in 2000, China had 6% of global shipbuilding; last year its share reached 25%. South Korea, the industry leader, has had to abandon low-tech ship production and focus on quality and higher-end ships. Yet even there China remains a competitive threat. Last year a Chinese company-- Hudong-Zhonghua-- won a contract

to build two liquefied natural gas tankers from Cosco and Australia LNG Pty Ltd., amongst others. LNG vessels are considered the industry's most technologically demanding ships to build.

Ports have always been one of China's most open infrastructure sectors, largely because it was also one of China's most decentralized infrastructure sectors. The 'One Port, One Administration' reform gave local governments the responsibility to run the ports with an independent management staff and budget. Competition between ports was encouraged and is one reason China's ports are now 50% cheaper than Hong Kong and South Korea's ports. More than anything, though, it was China's reforms to meet its WTO commitments that heralded the greatest change to the industry's growth. Foreigners can now own majority stakes, and even full ownership, in ports. Last year, government investment in China's ports totalled US\$3.6 billion; foreign investment in Dalian's port alone was US\$3.4 billion.

China's massive growth in exports has pushed ports worldwide to capacity limits, and now, having been caught unaware, many are rushing to expand. With widespread capacity shortages at North America's ports, foreign investment may join the flood of goods coming from Asia. The Los Angeles County Economic Development Corp. (LACEDC), looking to solve the LA's congestion problems, recently made a foreign investment pitch to Chinese and South Korean investors. In the end, Asia may find it in its own interest: LACEDC estimated that bottleneck delays in the US were costing Asian producers US\$1.3 billion annually. Canada has already seen a large investment from Petro China to bring oil from Enbridge's oil sands to the West Coast. Investments in other transportation sectors may not be far behind.

The B.C. Ports Strategy aims to attract CD\$4 billion from public and private investors to spend on infrastructure by 2020. The Vancouver Port Authority projects that it alone will need CD\$1.4 billion to meet its 2020 growth forecast. While bricks, mortar, and dollars may be an important issue, getting all parties in the logistics industry and all levels of governments to work together is of bigger concern for the Port of Vancouver. With projected growth in container handling estimated by the Port of Vancouver to grow 250% by 2020, Vancouver needs to do a whole lot more to ensure that it does not lag too far behind in its vision to become the North American gateway of the Asia-Pacific.

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