

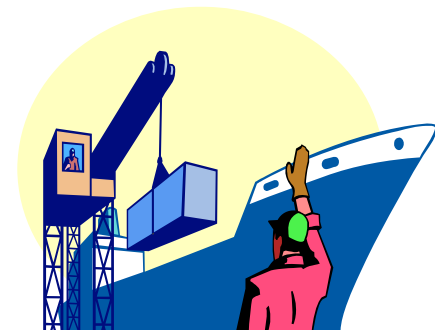
# New Competition and Cooperation among Shanghai & Other Eastern Asian Ports

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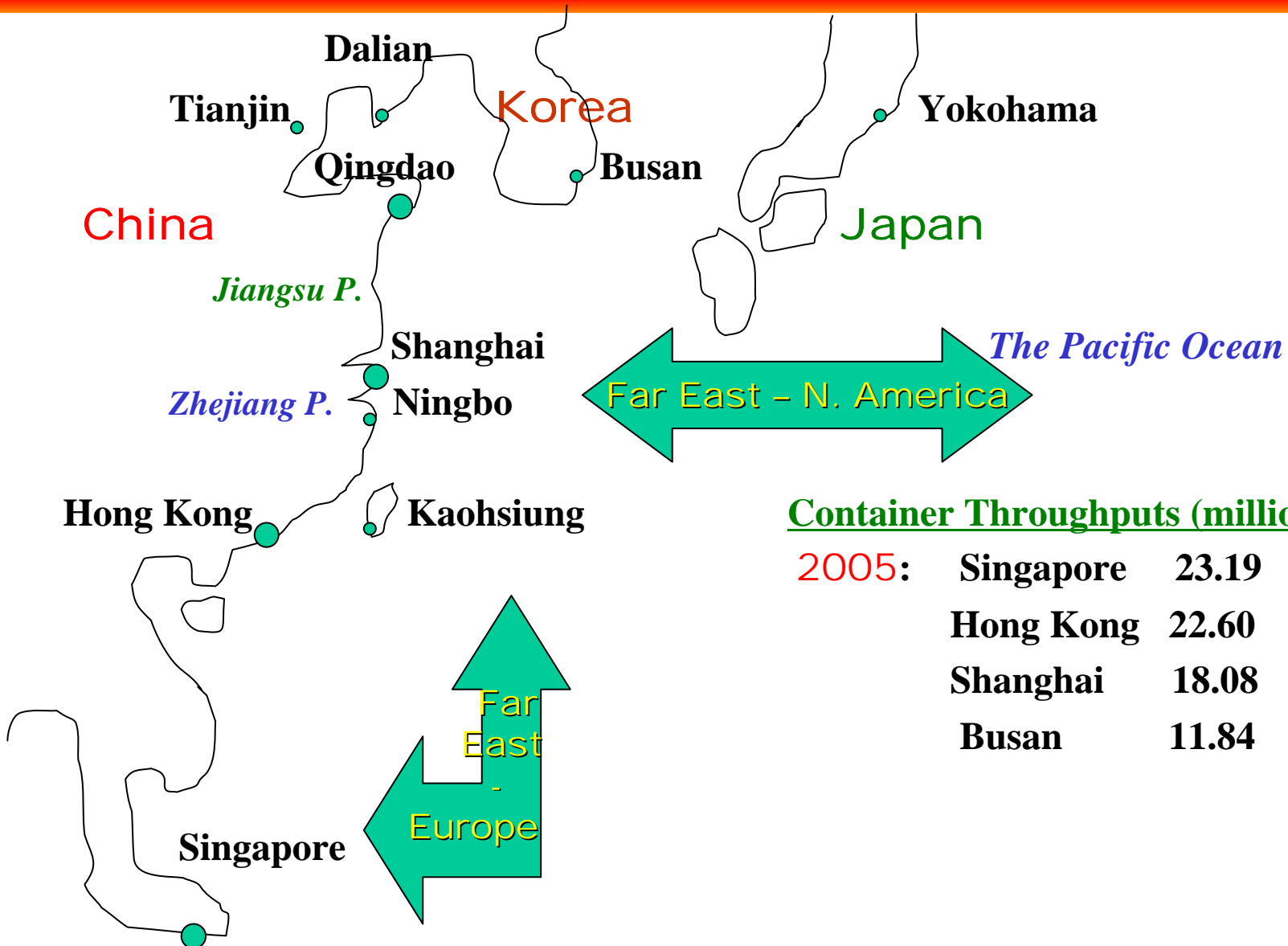


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# 1. Layout of the Main Ports Concerned



## Container Throughputs (million TEUs)

<b>2005:</b>	<b>Singapore</b>	<b>23.19</b>
	<b>Hong Kong</b>	<b>22.60</b>
	<b>Shanghai</b>	<b>18.08</b>
	<b>Busan</b>	<b>11.84</b>

# 2. Economic Background

Not only domestic but also foreign ports keep an eye on the Yangtze Delta and the whole river basin, which have the great potential to generate cargo.

## Major Economic Performances of the Delta Region

Year Area	2004			2005		
	GDP ( RMB billion)	F. Trade ( USD billion )	( Exports )	GDP (RMB billion)	F. Trade ( USD billion )	( Exports )
<b>Jiangsu</b>	<b>1551.24</b> +14.9%	<b>170.81</b> +50.3%	<b>87.56</b> +48.1%	<b>1827.11</b> +14.5%	<b>227.94</b> +33.4%	<b>122.98</b> +40.5%
<b>Zhejiang</b>	<b>1124.3</b> +14.3%	<b>85.23</b> +38.3%	<b>58.16</b> +39.8%	<b>1336.5</b> +12.4%	<b>107.4</b> +26%	<b>76.8</b> +32.1%
<b>Shanghai</b>	<b>745.03</b> +13.6%	<b>160.03</b> +40.4%	<b>73.52</b> +51.6%	<b>914.4</b> +11.1%	<b>186.37</b> +16.5%	<b>90.74</b> +23.4%

All the value of foreign traded commodities through Shanghai Gateway:

2004: **USD 282.58 billion**, +40.4%. (the share of local cargo via Shanghai Port: 56.6%) .

2005: **USD 350.678 billion**, +24.1%, (the share of local cargo via Shanghai Port: 53.1%).

# China's Latest Development in the 1st Half of 2006

## (1) Exports:

**USD 428.59 billion, +25.2%;**

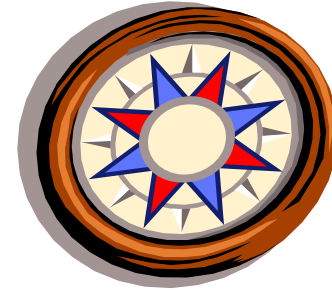
## (2) Imports:

**USD 367.15 billion, +21.3%;**

## (3) Total Trade Value & the Balance:

**Total Value: USD 795.74 billion, +23.4 %;**

**Surplus: USD 61.45 billion, +54.9 %.**



- ★ These years, the Chinese economy as a whole and the Yangtze River Delta in particular are developing faster than before.
- ★ A big rise in their foreign trade generates more and more demand for sea transportation.
- ★ Therefore, the fast expansion of port capacity is really needed.

# 3. Recent Development of Shanghai Port

## Brief Introduction

- \* **The goal of developing Shanghai into an international economic, finance and trade center by the year 2010 started in 1995.**
- \* **2005, the container throughput at the Shanghai port grew a massive 24.3% to 18.08 million TEUs. This keeps Shanghai the world's third largest container port, behind Singapore and Hong Kong.**
- \* **The former Shanghai port Authority was reorganized into the Shanghai International Port (Group) Co. Ltd., and the Shanghai Municipal Port Administration Bureau was founded in Jan. 2003.**
- \* **In Nov. 2005, the 1st phase of Yangshan offshore Deep Container Terminal was completed and put into operation.**

# Shanghai International Shipping Center

\* Chinese central government and Shanghai Municipality have invested in manpower and resources to speed up the progress of building International Shipping (Maritime) Center.

## ★ They argue:

① If the new deepwater port cannot be completed on schedule, majority of the containers along Yangtze River will be transshipped elsewhere.

② Besides port construction, other maritime services are also very important, such as ship finance, brokerage, law service and etc.

③ Both hardware and software conditions need improving urgently.



# 4. Main Port Competitors

- 1) **Domestically:** Shanghai v.s. Ningbo for the Yangtze Delta.  
Shanghai v.s. Hong Kong for the Central China.
- 2) **Internationally:** Shanghai v.s. Busan and Yokohama, for the Yangtze River Basin.

**In my opinion, it is not necessary to conclude that the port competition is a Zero Game for the players. The reasons are:**

- ① Fast growth of Chinese economy;
- ② The status of “World Factory” (manufacturing center);
- ③ Direct trade between countries increases rapidly;
- ④ Comparative advantage of the ports concerned;
- ⑤ Land access to Shanghai Port mainly rely on road transport. Improper system needs complementary supports from others.

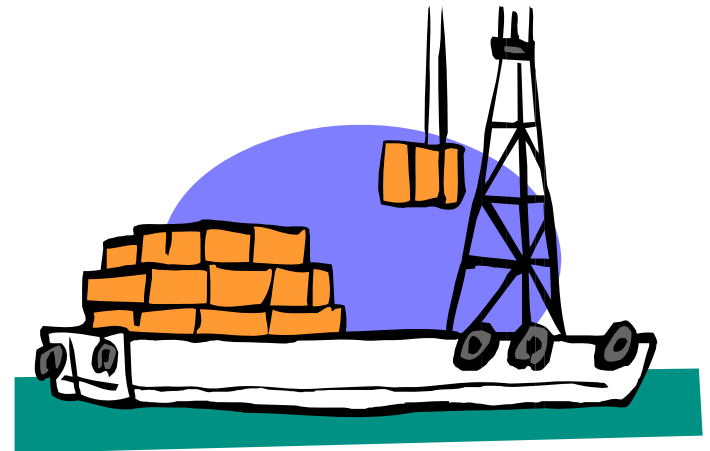


# Direct Trades between China and Oversea

- ◆ Based on the latest statistics, the data for the first quarter of 2006 is released as the followings:

Trade with Japan: USD 45.97 billion,	growth rate: + 11.6%;
Trade with Korea:	+ 20.2%;
Trade with ASEAN:	+ 25.7%;
Mainland's trade with Taiwan:	+ 24.2%.

- ◆ For directly traded cargo, ports at two ends serve as cooperative partners, rather than rivals.
- ◆ If someday these trades do not increase any longer, the ports concerned will compete more for transshipment.



# 5. Chinese Transshipment via Neighboring Ports

- \* In spite of some major improvements of Chinese mainland seaports, neighboring oversea ports can still exploit many opportunities to develop.
- ◆ Compared with 2004, Busan port's T/S container throughput increased by more than 8% in 2005, though its coastal throughput fell down at the rate of 19.6%.
- \* The transshipped containers carried by COSCO via Busan were 13,000 TEUs (2004) and 14,000 TEUs (2005). Their ratios to the whole laden containers on the same routes are 28% and 26%, respectively.
- ◆ Compared with some Chinese major coastal seaports, Busan may still enjoy some economic and operational advantages.

## Cost-Effective Comparison among Major Competitive Ports\*

Items	Shanghai	Busan	Shenzhen	Ningbo
Stevedoring	3.50	2.16	4.18	2.58
Port Charge	4.18	2.13	3.27	3.63
Berthage	3.12	2.47	3.00	2.88
Bunker	4.23	2.38	4.50	4.20
Overall Average:	3.77	2.26	3.13	3.11

**Note:** \*Cost level: High=5; Middle=3; Low=1. The data are given by a research report, which released the feedback information from more than 60 Chinese and foreign container lines and other ocean carriers in 2004.

# Yangshan Port v.s. Busan New Port

\* In order to catch more cargo, Yangshan Port (the 1st phase) announced to cut its stevedoring charges (loading & unloading) dramatically in May 2006:

- ① Internationally-transshipped containers: **-20%**;
- ② Transshipped containers inbound from Yangtze River: **-50%**;
- ③ **No stevedoring charges for the container shuttles between Waigaoqiao Port Area and Yangshan Terminal.**

Besides, crane productivity improved from **25 moves to 33 moves per unit hour** (*Charles JL Zhang, Shanghai Int'l Port Group, 2006-7*).

\* Although Yangshan Port now has more strength in its port tariff and port productivity, its land access to hinterlands is still in difficulty.

- According to the report made by the Korea Port Economy Association, Busan New Port still has competitive advantage over Yangshan Port in terms of ideal location and connection between terminal and hinterland logistics park ([www.kportea.or.kr/pds/](http://www.kportea.or.kr/pds/)).

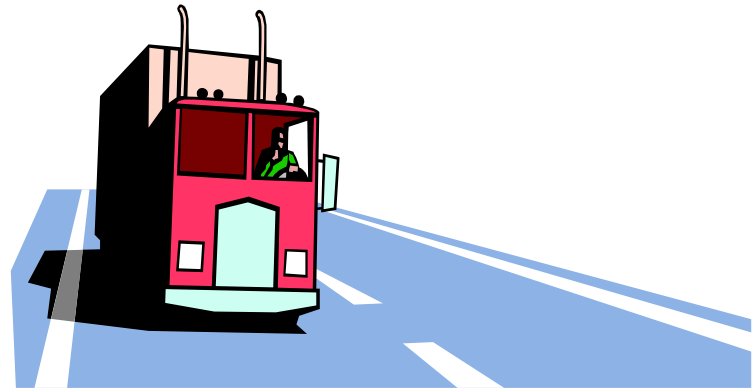
# 6. Domestic Competition within the Delta & Port Governance



# A. The Shanghai Combined Port

\* In the autumn of 1997, the Shanghai Combined Port (SCP) was formed by combining the container terminals of Shanghai, Zhejiang and Jiangsu.

\* The composite port, while taking Shanghai as the center and the provinces as two wings, reorganized the existing and planned container terminals so as to make full use of each terminal's capacity, rationalize the geographical distribution of the terminals, avoid duplication of construction projects.



## \* The Characteristics of Shanghai Combined Port (SCP) in three respects:

- ① The **SCP** has management committee under the **MOC** and with members from Shanghai Municipality, **Jiangsu** and **Zhejiang** provinces.
  - ② The **SCP** is clearly defined as a port group within a confined geographical boundary up west to Nanjing, east to the mouth of Yangtze River, and south to Ningbo.
  - ③ The committee was granted the cross-region administrative authority to have a handling capacity of 5 mn TEUs by **2000** and handle **10 mn TEUs** by **2010** (achieved already by Shanghai port alone in **2003**).
- \* **Actually its members did not hold meeting regularly, due to its failure to settle any critical issues with conflicting interests among different ports.**



## B. The Powers of Port Authorities

- 1 **Shanghai International Port Group (SIPG)** has the power to allocate the vessels among terminals in operation, oversees and co-ordinates all the three port areas, such as wharves along Huangpu River, Waigaoqiao and Yangshan Harbors. Compared with its Ningbo counterpart, **SIPG** surely has stronger lobbying power to influence the top administration.
- 2 **Shanghai Municipal Port Administration Bureau** (which was founded after the re-organization of Shanghai Port Authority) enjoys a significant dominance over its counterpart in **Ningbo** due its superior position, according to the current Chinese administrative hierarchy.



## C. Supportive Infrastructure

**There are two major construction projects involved:**

- \* The **32** km long sea-crossing Donghai Bridge to connect Shanghai with Yangshan Islands, but it has been cost separately by the city government of Shanghai as part of “urban infrastructure”, which is to be **free of toll charges** for users.
- \* The **33** km long bridge crossing Hangzhou Bay to provide a shortcut between Ningbo and most prosperous part of Yangtze River Delta, it is regarded as a section of the National Coastal Expressway in China, which has been planned, designed and aligned by the **MOC**. All the decisions including charges are **up to Beijing to make**.



# Main Issues to Be Discussed

(1) Will Shanghai Int'l Port Group still hold the overall power of vessel allocation, succeeding SPA?

- \* So far, the **Shanghai International Port Group** has held the majority of the port shares. Not surprisingly, most of the current co-ordinations between different port areas (terminals) are conducted by the said group.
- \* Shanghai welcomes oversea capital to flow into the 2<sup>nd</sup> or 3<sup>rd</sup> phase of Yangshan's project.
- \* When worldwide shipping giants or major multinational port groups gain more power in this sector (e.g. the shares of 2<sup>nd</sup>-phase Yangshan Port: Hutchison 32%, A.P. Moller 32%, SIPG 16%, COSCO 10% and China Shipping 10% ), who will **determine** the rate setting mechanism and the vessel terminal allocation?

## (2) How to deal with the possible keen competition from the Ningbo Port which might undermine the hub status of the Shanghai Port?

- \* According to some reports, **Ningbo**, supported by **Zhejiang** Provincial Government, has made its blueprint for future development. Its goal is clearly defined as international hub port.
- \* With the construction of the **Hangzhou Bay Bridge**, the competition between them for their overlapped hinterlands – **YRD** - must be extremely severe if the foreign trades stagnate. **(rational or not?)** .

## (3) Efficiency Compared (2002):

- \* **Value Added/Total Output in Shipping & Port Sector:**  
**RMB 9,122.4129 million / RMB 55,219.7728 million = 16.52%;**  
**The Same Ratio at Shanghai's Average Level:**  
**RMB 540,875.97 million / RMB 1,687,055.9317 million = 32.06%.**
- \* So, Shanghai's shipping & port sector is relatively less efficient.

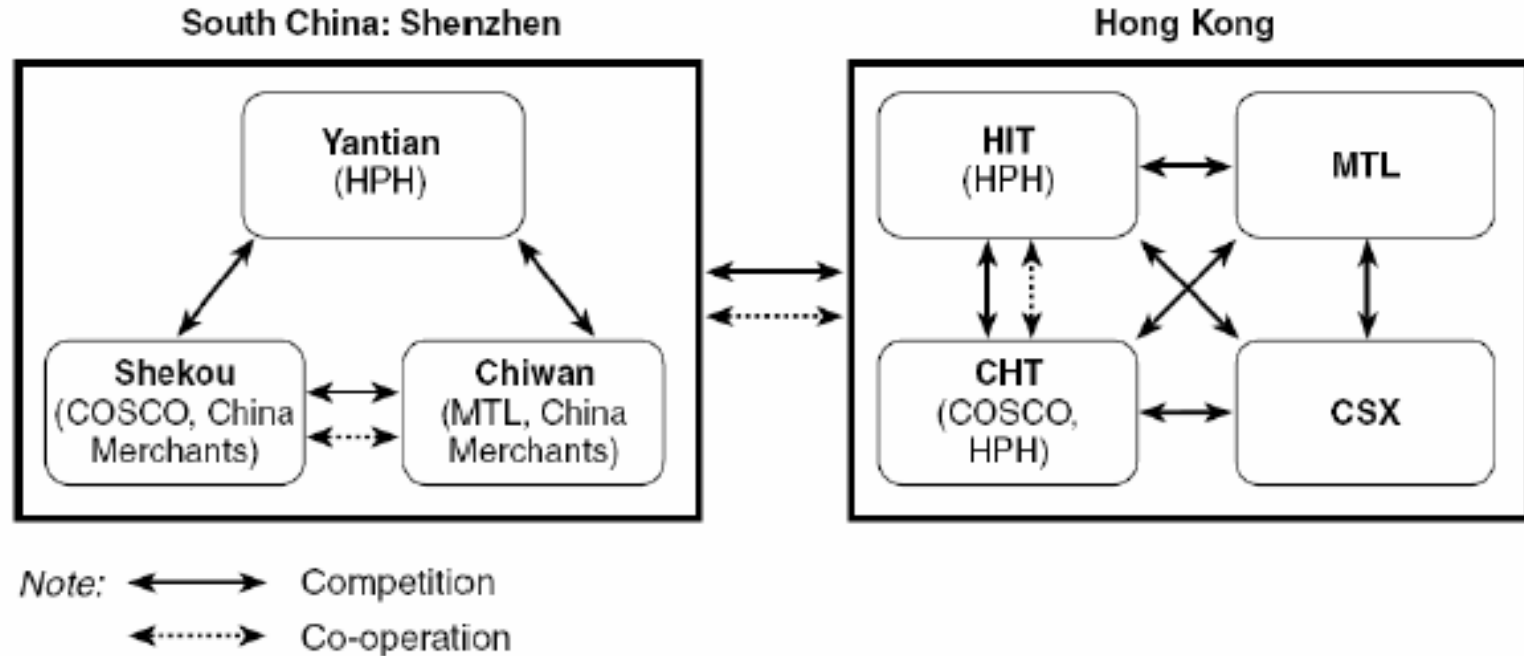
# 7. Port Co-opetition Strategy

- ★ **Co-opetition means a mixture of competition and cooperation, which leads to a win-win game to the players involved.**
- ★ **Co-opetition is a way of collaborating to compete. Such collaboration could avoid mutually destructive competition among them.**
- ★ **Inter-firm co-opetition is formalized through various type of co-operation arrangement which can be classified as the equity participation of parties and non-equity contractual forms of collaboration.**
- ★ **The major global port operators have chosen the equity joint venture.**

# Competition vs. Cooperation

## Inter-, Intra-competition and cooperation

### *Inter-, Intra-Competition and Co-operation*



Inter-relationship between Hong Kong and South China ports.

# Positive Effects of Co-opetition between Ports of Hong Kong and Shenzhen

- ★ **The timely investment in the neighboring area – Shenzhen to build port infrastructure can be justified, since the land shortage and ever-increasing labor cost in Hong Kong hindered its port capacity from a big further rise.**
- ★ **Using Shenzhen port as an effective alternative, Hong Kong capital invested in the Pearl River Delta (Southern China) could yield much higher return due to its cheaper costs and closer proximity to manufacturing plants of the exported cargoes.**
- ★ **The existing port facilities in Hong Kong also benefit a lot, with the ratio of laden/empty containers as 88.8:11.2 in March 2004, while Shenzhen port only got the ratio of 65:35 in the same season.**
- ★ **Based on a report by HK government in June 1996, economic contributions of per laden/empty TEU to the local community were **HKD21,690** and **HKD 1,031**, respectively.**

# How does Shanghai React now?

- ★ Shanghai Port realizes that multiple investors of different terminals within the same port and closed capital linkage among competing ports can create an efficient environment for the all concerned.
- ① Shanghai Port is actively involved in the constructions of some feeder ports and the related logistics parks along Yangtze River, such Nanjing, Wuhan and etc.
- ② For the 2<sup>nd</sup> and 3<sup>rd</sup> phase of Yangshan Project, Shanghai welcomes external capital to invest. giant container lines. Besides SIPG, there are other four groups, including global port operators i.e. Hutchison & AP Moller and giant container lines i.e. COSCO & China Shipping, to invest in the 2nd phase project.
- ③ In Dec. 2004, Shanghai International Port Group Co. sold its 30% shares to China Merchant Group (Hong Kong based) with the total value of RMB 5.57 billion, which also actively invests in Ningbo and Qingdao ports.
- ★ However, so far, SIPG has achieved little in its direct investment in foreign and domestic main ports.

# 8. Conclusion

- \* **The rapid development in Chinese economy, especially the Yangtze River Delta, creates a lot of opportunities for both Chinese mainland seaports and neighboring oversea hubs.**
- \* **All the related ports in Far East region are likely to benefit from their mutual developments, and steadily expanding international seaborne trades of their host countries.**
- \* **Some advantage of other Asian ports in transshipping Chinese container cargo may still prevail over their Chinese competitors, such as reliable logistics service or lower operation costs.**
- \* **The competitions among Eastern Asian ports, either domestically or internationally, could be very severe, especially when the international seaborne trades in this region stagnate.**
- \* **To achieve a win-win game, some capital linkage among different ports needs encouraging. More open-door policies concerning port investment are strongly recommended, not only to Chinese government but other neighboring Asian administrations as well. #**

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- ◆ **Others which are omitted here.**





*Thank you all !*

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