

Executive summary

Increasing international trade has wide reaching implications for the Asia-Pacific region.

Liberalization of trade in goods and services, new integrated transport networks and information communication technology (ICT) developments have created unprecedented business opportunities for the trade and transport industry. Increased levels of competition have also resulted in public sector and private sector organizations recognizing the need to move from national and regional business strategies to global business strategies.

Increasing international trade volumes, coupled with the adoption of standardised containers to move cargo have fundamentally changed the shipping industry.

Containerization and economies of scale in ship size have affected how shipping industry has evolved.

Standardised containerization has led to the design and introduction of ships of increasing size and capacity.

There are significant economies of scale for shippers in building larger and larger ships, but the looming introduction of mega-sized vessels will require new investment in infrastructure to support these ships.

In the last two decades, the hub and spoke system in liner service has developed as larger containerships have been adopted on major sea transport routes such as the Europe-Far East-American West Coast route.

The large ships on the east/west routes will call mainly at transshipment hubs where containers will be shifted to multi-layered feeder subsystems serving north/south, diagonal and regional routes.

..which has implications ports.

These events have important implications for both the viability of port owners and operators, and on how the network for shipping services will continue to evolve.

While different views exist between carriers and shippers on the merits of the hub and spoke network, its evolution will ultimately be determined by the balance of power between carriers and shippers. For carriers, economies of scale are critical, while for the shipper, total freight rates, time and service quality are more important.

The development of the hub and spoke network has increased competition between ports to offer hub services.

Increasing competition in port services means ports must look to reduce costs and offer value-added services to attract business.

As hub port competition intensifies, ports must increasingly focus on achieving cost reductions for shippers, and on providing value-added services around port facilities.

Dedicated logistics zones in the areas immediately surrounding ports (hinterland), which facilitate smooth intermodal movements of goods and ensure goods reach their final destinations quicker and more cheaply, are one way of value-adding to port facilities.

Ports have also been developing their physical infrastructures, especially container terminals and related facilities, and expanding their port hinterland.

Many ports have also been carrying out regulatory and procedural reforms, including port governance restructuring, transferring ownership to private operators and streamlining regulation.

Recently most ports have introduced incentives to promote transshipment, such as offering longer storage periods, lower handling charges and reductions in port tariffs for larger shipping lines.

Logistics services are becoming increasingly important.

Moreover, most shipping lines have been introducing vertical integration by transforming their role from shipping carriers to global logistics providers covering logistics supply management, distribution and global logistics and value-added services. The role of shipping lines is evolving to include offering total logistics services.

Free trade zones are one method of attracting business to port areas but trade obligations impose rules around competition for business.

In line with these trends, many Asian countries have established special value-adding zones (*free trade zones, or FTZs*) in port areas or in the wider hinterland with expectations that these zones might bring economic benefits.

FTZs are also used to attract investment into a port area in order to establish a 'critical mass' that will be self sustaining and attract further business investment and shipping cargo.

World Trade Organization obligations place a limit on country competition for FTZ business. Subsidies to particular businesses or industries are discouraged, and may be subject to challenge by other WTO members.

Attracting FDI can have benefits to the macro economy, and may encourage broader investment and regulatory reform.

FTZs aim to attract foreign investment, which is thought to have benefits in employment and growth. It is argued that FTZs promote a 'critical mass' of economic activity around ports. This is self-sustaining and also attracts further business.

If the establishment and operation of an FTZ is successful, a FTZ may also act as a blueprint for wider reform once policy makers are convinced of the benefits that may accrue from reform.

While past international experience with FTZs is mixed, successful FTZs often have similar characteristics.

Establishing a FTZ is not a guaranteed method of obtaining higher growth rates or attracting FDI however. There are numerous international examples of FTZs that have failed to meet these objectives. Poor geographical location, low government commitment, operational difficulties, poor management and inadequate promotion give FTZs a higher probability of failure.

International experience suggests that there are certain factors that greatly increase the likelihood of success for a FTZ. Successful FTZs are usually characterised by quality infrastructure, a supportive government, lighter regulation, a strong export focus, tax and customs exemptions and large storage and logistics capacities. Policies that promote macroeconomic stability are also important.

*Thorough policy planning
will maximise chances
of success.*

In order to ensure the greatest chances of FTZs meeting country development goals, sufficient time must be spent considering the strategic goals of the FTZ before implementation. These goals should be consistent with national development goals, and set out the objectives of the zone, and how those objectives will be achieved, and the responsibilities of various stakeholders in making the investment a success.

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