

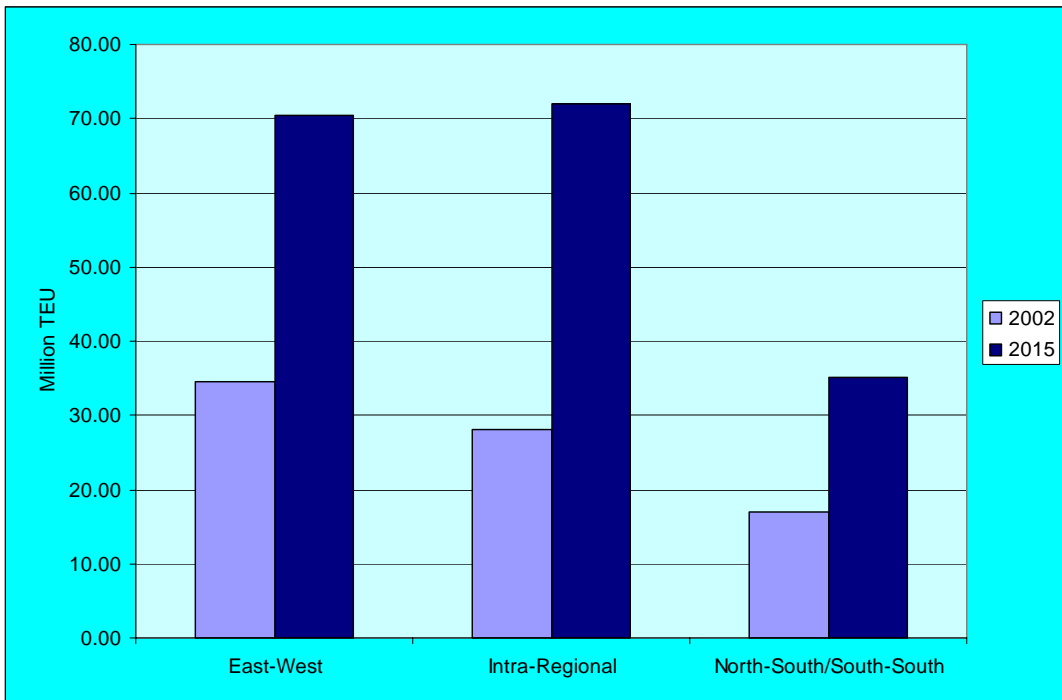
4. TRADE STRUCTURE

4.1 Changing Nature of Global Container Trade

Container shipping routes can be divided into three main groups: (1) East-West trades, which circle the globe in the Northern Hemisphere linking the major industrial centres of North America, Western Europe and Asia; (2) North-South trades articulating around major production and consumption centres of Europe, Asia and North America, and linking these centres with developing countries in the Southern Hemisphere; and (3) intraregional trades operating in shorter hauls and with smaller ships. North-south routes are

Figure 4-1 shows study estimates of the container trade volumes (full export/import containers only) in 2002 and 2015 of each of trade groups. Container trade volumes on the East-West routes will increase from 34 million TEU in 2002 to 70 million TEU in 2015 representing 5.8 per cent of annual average growth rate. The study forecasts suggest that the intraregional trades will show solid growth from 28 million TEU to 72 million TEU with a compound average growth rate of 7.5 per cent per annum over the same period. The North-South trade is also expected to grow at a rate of 6.2 per cent per annum on average, exceeding the growth rate of the East-West trade.

Figure 4-1: Container Trade by Trade Group (2002 and 2015)

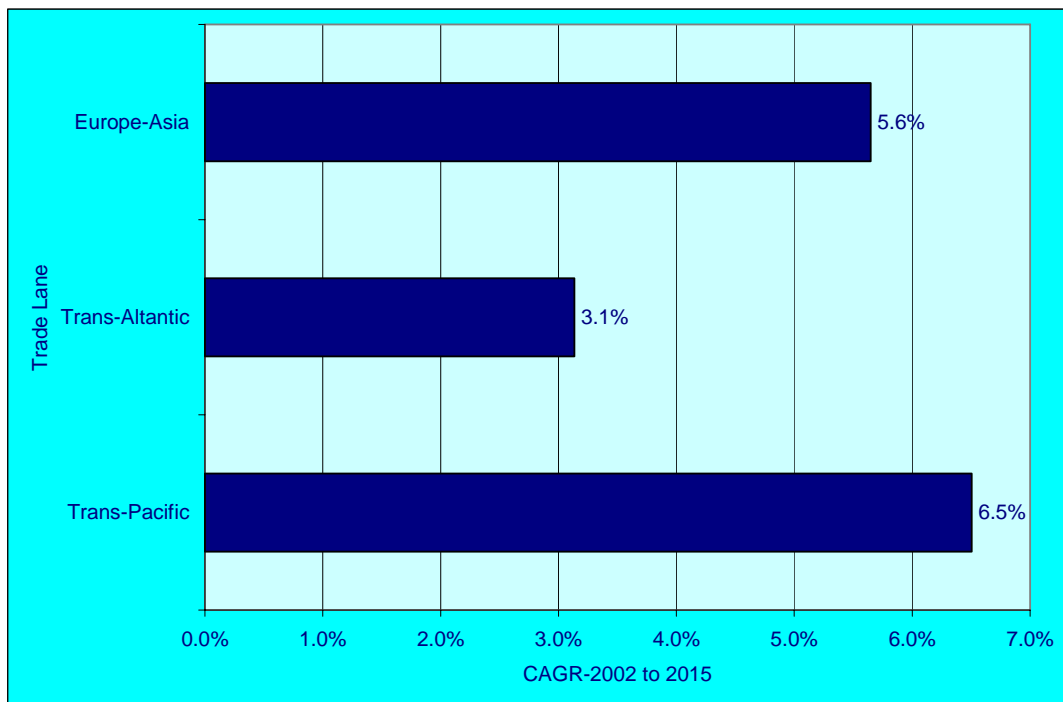


4.2 Asia - North America

The biggest deep sea liner route is the trans-Pacific trade between Asia and North America, representing 14.5 million TEU in 2002, equivalent to 43 per cent of the total East-West trade and 19 per cent of the world total. The services operate between the North American ports on the East Coast, the Gulf and the West Coast, and the industrial centres of Asian countries, with some services extending to the Middle East.

As shown in Figure 4-2, it is expected that the trans-Pacific trade will show the strongest growth of 6.5 per cent per annum among the three major East-West trades (namely, Asia-North America, Asia-Europe, and North America-Europe) during the forecast period and reach 33.5 million TEU in 2015.

Figure 4-2: East-West Trade Lane Growth (2002 - 2015)



Since the Asian crisis the trans-Pacific trade growth has been very unbalanced, with strong growth in the eastbound trade coinciding with a deep and protracted slump in westbound volumes. Container flows on the dominant leg, Asia to North America, reached 9.1 million TEU in 2002, while in the opposite westbound direction the flow stood at 5.7 million TEU.

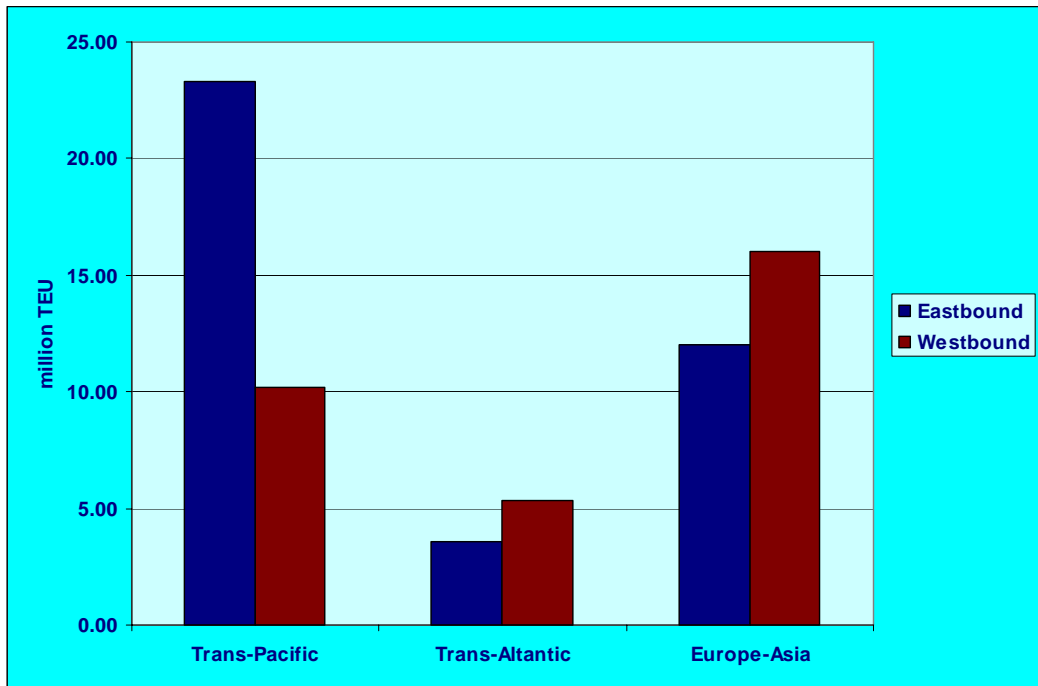
The study forecasts suggest that the current trade imbalance is likely to be deepened in a long-term. An average growth rate of 4.6 per cent per annum until 2015 is forecast for the westbound trade, compared with a growth rate of 7.5 per cent per

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annum in the eastbound trade. It is expected that in 2015 the container volume of westbound trade on the trans-Pacific route will be around 10.2 million TEU, which is less than half of the eastbound trade, 23.3 million TEU.

As the imbalance of container flows is expected to continue, repositioning of empty containers will remain a major concern for carriers, in particular those operating on the trans-Pacific trade route.

Figure 4-3: Trade Imbalance on East-West Routes (2015)



4.3 Asia - Europe

The study estimates show that container trade volume on the Asia–Europe route reached 13.7 million TEU in 2002. The prospects for the growth of Asia-Europe trade seem somewhat lower than trans-Pacific trade, growing at an average rate of 5.6 per cent per annum until 2015 (Figure 4-2). It should be noted however that this growth rate covers the whole of the Asia-Europe trade, including some very mature markets such as Northern Europe- Japan, which are expected to grow only slowly. Some other components – for instance, trade between East Asia and the Mediterranean, and between India and all parts of Europe – are expected to grow more rapidly than the rate quoted above.

Like the trans-Pacific trade, this Asia-Europe trade has also become seriously unbalanced since the 1997 Asian currency crises. In the early 1990s, the volume of cargo carried in each direction in this trade lane was reasonably equal: although

westbound TEU numbers exceeded eastbound by around 10 per cent, this was offset by the fact that eastbound containers were, on average, significantly heavier.

By 2002, this had changed greatly, particularly with respect to Asian trade with Northern Europe. The study estimates that westbound TEU numbers now exceeds eastbound by around 25 per cent, although the imbalance is less pronounced than that existing across the Pacific.

According to the study forecasts, the trade imbalance on the Asia-Europe route will be further increased to around 34 per cent in 2015. Westbound volumes are expected to increase from 7.6 million TEU to 16.0 million TEU at an average of 5.9 per cent per annum over the forecast period, compared to the estimated rate of growth of 5.4 per cent for westbound volumes from 6.1 million TEU to 12.0 million TEU during the same period.

4.4 Intra-Asia

The growth model for almost all of the principal Asian economies has been based on the pivotal role of trade as the driver of Asian economic growth. Trade growth has occurred at the same time as a burgeoning of FDI by the more wealthy Asian economies, initially Japan, but subsequently the Republic of Korea; Taiwan Province of China; Hong Kong, China; and Singapore, in manufacturing plants located in lower wage cost countries. This, together with trends in manufacturing processes that have favoured the two-way trade in components and sub-assemblies, led to spectacular levels of growth in the intra-Asian container trades during the early and mid-1990s, until the Asian economies were hit by the 1997 crisis.

It is a very difficult task to draw a comprehensive picture of the intra-Asian trade, although there have been some attempts to quantify the intra-Asian container flows based on some statistics available on container liftings of major shipping lines. In 1991, K-Line quantified the intra-Asian cargo flows between nine major Asian economies: Hong Kong, China; Indonesia; Japan; Malaysia; the Philippines; Republic of Korea; Singapore; Taiwan Province of China and Thailand. Total cargoes carried between countries/economies of the group at that time was estimated at 2.98 million TEU. In April 1997, an attempt was made by DRI/Mercer World Sea Trade Service to quantify the level of trade between these same nine economies. The estimated total for 1996 was 5.5 million TEU, a little short of double the 1991 total. This translates to a growth rate of 13 per cent per annum, compared to a growth in global container trade over the same period of around 8 per cent per annum.

It is likely that this quantification underestimated the real rate of growth in intra-Asian trade as a whole. The omission of China is the most obvious reason for this. In a separate publication, DRI/Mercer estimates that the number of containers flowing between the ports of China and the Far East Newly Industrialized Economies grew at an average of 30 per cent per annum over the first half of the 1990s. The DRI/Mercer

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also omits other container markets that are expected to grow very rapidly over the forecast period: the most important of these are India and Viet Nam.

Although there is no question that this trade was hit particularly hard by the Asian crisis, it is difficult to obtain definitive estimates of the impact. Based on Standard and Poor's World Sea Trade Service data, it would appear that the trade was effectively stagnant over the period 1996 to 1998. However, it appears that the intra-Asian trade witnessed a return to solid growth during the late 1990's and early 2000's, although at levels somewhat lower than those of the early 1990s.

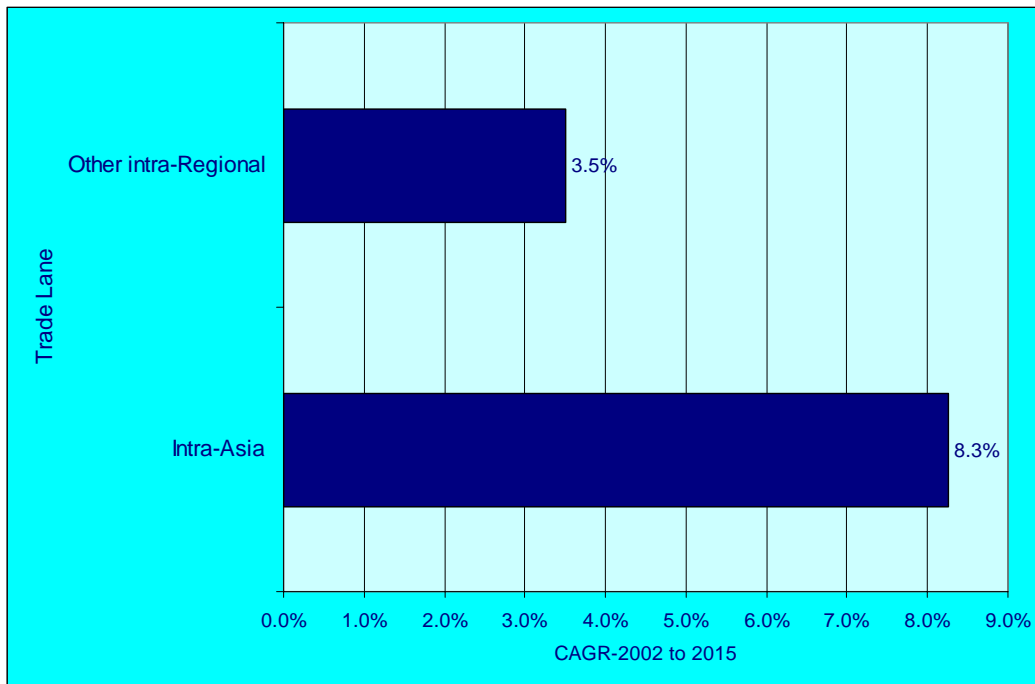
Drewry Shipping Consultant Ltd. (Drewry, 2003) made an attempt to compile a series of detailed intra-Asian trade matrices for the period 1999 to 2001, covering country-to-country container cargo exchanges among 13 Asian economies including China (with Hong Kong, China and Taiwan Province of China, separately), Indonesia, Japan, Malaysia, Myanmar, Philippines, Republic of Korea, Singapore, Thailand and Viet Nam. It was estimated that the total trade between Asian countries increased from 12.8 million TEU in 1999 to 15.9 million TEU in 2001, with an annual average growth rate of 12 per cent. However, it should be noted that this includes around 3 million TEU of domestic traffic, mainly in China, Indonesia, Japan and Philippines. The Drewry analysis also excludes the South Asian market which has recently been growing rapidly.

The MPPM study attempts to provide a comprehensive picture of the intra-Asian container trade covering the whole ESCAP region, which is estimated to have reached 22 million TEU in 2002.

A number of factors suggest that long-term growth prospects for the intra-Asian trade remain strong:

- Sound medium to long term growth prospects for most Asian economies;
- Close proximity of a number of economies at very different levels of economic development;
- The continued importance of more economically advanced Asian economies as sources of FDI for the less developed economies of the region;
- Regional free trade agreements such as ASEAN's Common Effective Preferential Tariff Scheme (CEPT).

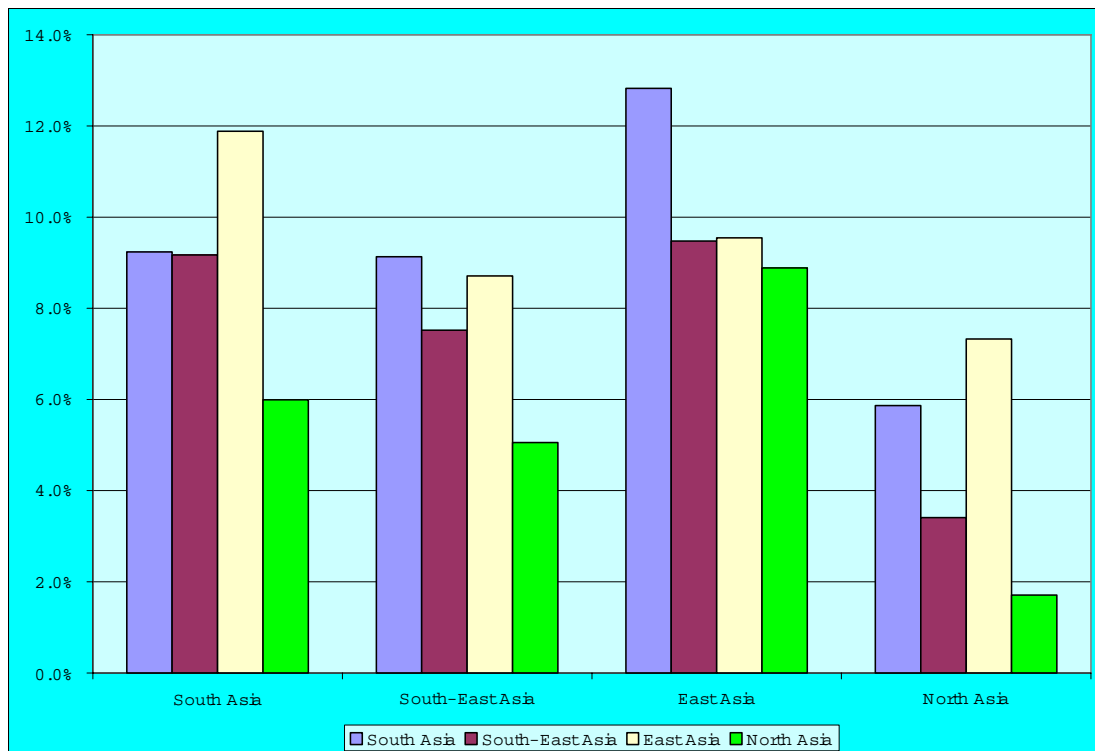
The study forecasts suggest that the intra-Asian trades are set for sustained solid growth, with a compound average growth rate of 8.3 per cent per annum over the period 2002-2015. This can be compared with merely 3.5 per cent, the average growth rate for other intraregional trade (Figure 4-4).

Figure 4-4: Intraregional Trade Growth (2002 - 2015)

Within the intra-Asian trades, growth of trade to and from East Asia and South Asia hold out great promise for the future. China, including Hong Kong, China and Taiwan Province of China, will continue to dominate the intra-Asian trade with an expected growth rate of 9.3 per cent per annum during the period 2002-2015. The study estimates show that the South Asian countries trade with other Asian countries will increase at an average rate of 10.4 per cent over the same period. In particular, the trade between these two subregions is expected to increase at more than 12 per cent per annum.

Meanwhile, growth of trade between North Asia and South-East Asia is likely to be slow, with an expected growth rate of around 4 per cent per annum over the coming decade. This trade component, which was the star performer of the early 1990s, has been hard hit first by the slowdown in the Japanese economy and then by the 1997 crisis.

Figure 4-5: Intra-Asian Trade Growth (2002 - 2015)



4.5 Minor Routes

North-South routes are articulated around the major production and consumption centres of Europe, Asia and North America, and link these centres with developing countries and flows expands and contracts in line with economic conditions prevailing at both ends. It is estimated that in 2002, the container trade volume carried on the North-South routes was around 15 million TEU, of which 7 million TEU was Asian related trade.

Asia's container trade with Africa and Latin America and Australia is expected to grow at rates well in excess of the world average throughout the forecast period, averaging over 8 per cent per annum. This reflects improved economic performance and a greater acceptance of containerization in these partner regions.