



# SHANGHAI PORT: YANGTZE GROWTH STRATEGY

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The Port of Shanghai is located in one of China's most economically developed cities, situated at the middle of the 18,000 kilometre-long Chinese coastline, where the Yangtze River flows into the sea. As the direct hinterland of the Port of Shanghai, the Yangtze Economic Zone contributes more than 40% of the GDP of China, as well as 25% of the nation's total import and export cargos. It is the base market for the port as well as a critical area for its sustainable growth.

The vast area of Yangtze River hinterland is the market cornerstone and one of the most important driving factors in the development of Shanghai International Port Group (SIPG). To maintain and increase the share of the container terminal market along the river, SIPG has implemented the Yangtze strategy for 16 years. The key of the Yangtze strategy is speeding up containerization and systematizing the development of the ports, directing the flow of goods, enhancing the port's influence over the river catchment, and realizing sustainable development for SIPG.

## DEVELOPMENT

As early as 2001, the predecessor of SIPG, Shanghai Port Container Company (SPCCO), formed the basic framework of the Yangtze Strategy. The throughput originating from Yangtze was less than 1 million TEU, and accounted for 17% of the whole throughput of Shanghai Port. Most of the terminals facilities and barges were out of date, small and slow, with higher safety and security risks, causing higher costs for all the stakeholders. There was lack of an organized information system, and the small barges had to call for berthing at the terminals in Shanghai port several times even in the same voyage, which substantially reduced the hub's efficiency.

The company decided to invest in long-term development by helping the port authorities along the Yangtze, as well as their container affiliates, build up closer business relationships with Shanghai Port. As Shanghai Port has a unique and strategic location as the only major coastal port connected to inland China by the Yangtze River, it was the first coastal port to become aware of the importance of the Yangtze Economic Zone.

## INVESTMENT

Besides the portfolio of seven container terminals in Shanghai Port, SIPG has stakes in nine ports along the Yangtze River. The list from upstream to downstream is Yibin, Chongqing, YueYang, Wuhan, Jiujiang, Wuhu, Nanjin, Jiangyin and TaiChangh. The total investment amounts to more than RMB 3.6 billion (US\$530 million).

The invested port JVs set up new terminals, bought facilities to accommodate larger barges, developed a brand new Terminal Operation System (TOS) to gain higher efficiency, and enhanced age-related workforce structuring by training old and new employees with skills needed to handle containers. The type of barges operating midstream in the Yangtze River were upgraded from 150 TEU to 800 and even 1,100 TEU. Enjoying economies of scale, both barge operators and the ports gained high speed growth, and the shippers enjoy the cost savings as well.

The government also invested heavily on infrastructures. The draft of main channel of the Yangtze was dredged to 12.5 meters from 10.5 meters between Nanjing and

Shanghai, which benefits plans for the upsizing of barges as well as terminals.

### HIGH SPEED GROWTH

With the timely injection of the investment, all the ports grasped the opportunity for high speed growth of the market in the first several years of new century, right after China's accession to the World Trade Organization (WTO). Upgrading industries in Yangtze delta after 2008, the global finance crisis, many manufacturers try to find new cost "depressions" to continue their business. Some of them moved overseas, and some moved upstream along Yangtze River because of the integrated industry and efficient logistics system. The economy in China's inland and West area grew rapidly, which helped boost logistics demand. Among all the types of transportation, waterway instead of railway and highway transportation, won on cost performance, thus enjoys highest growth rate.

At present, Shanghai Port welcomes more than 1,500 container feeder barges monthly from Yangtze. The throughput originated from Yangtze throughput exceeding 10 million TEU for the first time in 2016, more than 27% of the total throughput (37.1 million TEU). However, most of the containers come from the downstream Yangtze, as the middle and upstream took only around a quarter of the whole throughput. The fact indicates that there is still room and long way ahead for SIPG to develop its Yangtze Strategy.

### FUTURE OUTLOOK

The container terminal and related market system in the Yangtze River area is still in early stages of development. There is a large difference in the level of information system development among port facilities, shipping systems, and freight forwarders etc. in different regions along the Yangtze River area. SIPG realized that with economic restructuring, the place of China's traditional strength in manufacturing has been changed, now is an era of supply chain competition, especially for those manufacturers that move to middle and upstream on the Yangtze. Amid consolidation, all the players in the port logistics supply chain system need to provide standard and efficient services to win customers.

On July 20, 2017, SIPG, together with partners including other 13 major ports and shipping companies in the Yangtze River area announced the establishment of the Yangtze River shipping alliance, which aims to enhance information integration, container multi-modal transportation and to a realize green shipping and port system, so as to support the continuous



Many container-handling facilities have expanded along the Yangtze River

development of the Yangtze River Economic Belt. In 2016, China's 13th Five-year Plan proposed a series of policies benefiting the further development of SIPG. The alliance members will work together to push forward the standardization of the barges' type, optimizing the transshipment grading system, developing next generation consolidating and dispatching platform. Which will eventually promote the Yangtze River economic zone shipping system to an increasingly convenient, transparent, efficient and environmentally friendly status.

With the integration of ports and shipping businesses along the Yangtze river, SIPG will step up efforts to construct the Yangshan deep draft shipping hub in northeast Asia, which will connect the extensive economic hinterland along the River with the world.

### FUTURE GROWTH

As the hinterland of the SIPG's major cargo flows, the Yangtze Economic Zone lays the foundation for the continued success of Shanghai Port and is crucial to its future volume growth. It is vital for SIPG to maintain and increase business scale in the Yangtze River container market. The Yangtze River Strategy paves the way for the group's sustainable growth.

Maintaining the rapid and sustainable development of containerization is considered to be the top priority and the core business of SIPG. While implementing the Yangtze River strategy, Northeast Asia strategy and Internationalization strategy, SIPG will take advantage of the nation's "One Belt & One Road" strategy alongside its goal of "promoting the development

of the Yangtze River economic belt" to build Yangshan as a bridgehead for the whole system and enforce the group's three strategies step-by-step.

### ABOUT THE AUTHOR

Ding Songbing has had roles in investment analysis, successfully supporting the several port investment decisions along Yangtze River. After taking part in a joint training program jointly held by Shanghai International Port Group (SIPG) and AP Moller Maersk Group, he worked in the logistics division of SIPG, and went back to headquarters to help with founding SIPG's Strategy & Research department in 2008. Ding is a Certified Senior Programmer, and has a Masters' degree in Maritime Economics from Shanghai Maritime University.

### ABOUT THE ORGANISATION

SIPG operates the public container and bulk terminals in port of Shanghai, serves 281 container shipping routes covering major ports globally, which makes it the port with the highest density of container routes, the most frequent shifts and the most extensive coverage in the mainland of China. SIPG has recorded the container throughput of 37.1 million TEU, ranking first for the seventh consecutive year in terms of container volume in the year of 2016.

### ENQUIRIES

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