

Globalization of Maritime Commerce: The Rise of Hub & Mega Ports and The Importance of Chittagong

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Globalization is the inexorable integration of markets, nation-states, and technologies to a degree never witnessed before-in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before

————— Sam J. Tangredi

Containerization, telecommunication, globalization and privatization are among the most important recent trends that have affected shipping & maritime trade.

Current trend & future look

In an era of economic globalization, ports are evolving from being traditional interfaces between land and sea to providers of complete logistics networks. The momentum of this trend is creating a port shakeout, leading to the development of a sharply delineated hierarchy on a global scale. Ports are being increasingly differentiated by their ability to handle the latest generation of container ships coming on stream. With the trend toward even bigger container ships, fewer ports are becoming capable of handling them. As a result, the flexibility of the world sea borne trade flow is becoming increasingly constricted-particularly in the event of a natural or man-made crisis or disturbance.

Trends in Maritime Transport and Port Development in the Context of World Trade Structural changes in international trade and the evolution of maritime transport have a direct impact on port growth and expansion. Therefore, these elements and their recent characteristics must be examined. These factors also determine future port development. Globalization, production, trade, and ports. Globalization, or the expansion of markets and hence of the economic prospects

of societies, is taking place not only because of the supra-national nature of market, but also because of the flow of foreign investment and the strategies of multinational enterprises. These multinationals today account for two-thirds of global exports of goods and services and nearly 10% of domestic sales worldwide.

In this environment of increasing interdependence in the world, the international division of labor is changing as a result of structural changes in trade and unprecedented mobility of international capital. However, while the integration of goods and services and capital is progressing at a rapid pace, integration of the labor market is much slower. In addition, ever more sophisticated technologies are being disseminated, in a framework of spectacular streamlining in communications and telecommunications. The development of information technology has, in turn, boosted productivity and, in many cases, worker income. In general, electronic transactions and communications technology have been the necessary complement to full internalization and globalization and their major impact on production and world trade.

Fragments of maritime History

It is commonly claimed that the wheel is the greatest invention in history. Yet, common sense suggests that water transport was a reality before wheeled vehicles became important, something which is confirmed by archeology. Water transport with a history of more than 5,000 years is an integral part of civilization itself, and the world of shipping has a unique place in the history of mankind. Without it the world might have been nothing more than a quilt of isolated tribes confined to survive on whatever local resources they could find. It is difficult to even imagine that science and knowledge could develop very far in a world without water transport.

The first development of major sea routes on a regular basis took place during the Renaissance and expanded rapidly during the industrial revolution. The following quote from Sir Walter Raleigh, succinctly sums up the prevailing view on shipping as the 17th century began:

Whosoever commands the sea commands trade; whosoever commands the trade of the world commands the riches of the world, and consequently the world itself

Shipping was not only for adventurers and traders. It attracted the interest of Kings and Emperors, of philosophers and intellectuals. What Adam Smith (1776) did for our understanding of markets and industry late in the 18th century, Richard Hakluyt (1589) had done for trade and shipping two centuries earlier. His

monumental *The Principal Navigations, Voyages, Traffiques and Discoveries of the English Nation* (1589-1600) was written to be useful to merchants and entrepreneurs and ~to-influence -the direction and nature of public policy and indeed played a significant role in 16th century England.

Shipping was seen as much more than a means of transport, and was linked to broader concepts of technology and growth. Francis Bacon (1605) observed in *Advancement of Learning* “The proficiency in navigation and discoveries may plant also an expectation of the further proficiency and augmentation of all sciences”. Almost three centuries later (1870), Emerson, the American poet and philosopher, expressed similar thoughts: “The most advanced nations are also those who navigate the most”.

These fragments of maritime history remind us that there is something so profoundly fundamental about maritime transportation that it has no direct parallel in other industries. Shipping has shaped and formed, not only entire economies and world trade, but also cultures and cooperation between peoples. Merchant shipping developed and existed for centuries as a political, military and economic instrument.

After World War II there came a period when shipping appeared to be on the decline. Following the introduction of commercial jet aircraft in the late 1950s, proud ocean liners were soon eclipsed by air travel. The merchant marines of most Western countries declined and as ports moved away from city centers, ships literally disappeared from view. Yet shipping was there all alone and rather than being displaced by the emerging globalization, it contributed in a major way to make globalization possible.

Shipping as an Agent of Change

Globalization is said to be the collapse of time and space. Today’s communication systems allow instant contact between businesses around the world and intermodal transport has so reduced the importance of freight charges for manufactured goods as to practically eliminate the effect of distance.

As a result, major shifts have taken place in the global location of manufacturing. This trend accelerated with the opening of China and its Special Economic Zones in the 1980s. These zones are no longer called ‘special’ as practically all of China turns into one giant factory. The new industrial giant that China has become is often compared to 19th century United States. An almost inexhaustible supply of labor keeps wages low yet falling prices keep demand high and growing at the

present time there is even talk of the possibility of global deflation and invariably China's enormous industrial capacity is mentioned as an important contributing factor to that possibility.

The Economist of London has described today's world as 'as single machine' and goes on to say that "Rich countries worry that manufacturing is passing into the hands of poor countries." It concludes that this is indeed the case. World production of textiles is cited as an example. In 1975 China produced about ten percent of the world's textiles. By 1997 this share had increased to more than 20%. During the same period the United States went from being the top producer to being, second and saw its share of the total decline significantly.

Developing countries have gone from being exporters of raw materials and inexpensive handicraft to becoming major players in world markets for manufactured -goods. In 1980, 42% of merchandise exports from such countries in Southeast and East Asia were manufactured goods. By 1998, this share had nearly doubled to 82%, the same level as in high-income countries.

When Malcom McLean introduced highway containers in water transport on a limited scale in the 1950s, nobody could foresee the impact this would subsequently have on the structure of world trade. This new form of intermodal transport did much more than simply, change the way of carrying industrial goods. Starting in the 1970s, maritime containerization became a logistics tool that dramatically affected location of manufacturing industries around the world. What camels and clippers had done for silk and spices during the Middle Ages, and bulk carriers did for raw materials during the first half of the 20th century, container vessels are now doing for manufactured goods.

Historically, countries traded with their neighbors and only a small part of world trade was over long distances. Most goods could simply not justify the high cost of long distance transportation. Two developments have, contributed towards making long distance trade possible in manufactured goods on a large scale. First, value added marketing, the use of lighter materials and miniaturization of many products have resulted in higher product value per cubic foot or unit of weight. This is as true for cellular phones as for coffee pots.

Second, there has been a dramatic leap in the productivity of maritime transport services for manufactured goods. Containers now move 'seamlessly' from factory floor to port, across the ocean, and then inland at destination, continuing all the way to the customer's warehouse. This represents an enormously simplified operation compared with the old-fashioned break-bulk systems, which required individual packaging, handling, stowing etc. of each item shipped. The transition

from traditional break-bulk operations in pre-container times to multimodal through transport can be compared with the transition from forge to factory or from 'job shop' to 'flow shop'.

Not all regions and countries have benefited equally from globalization and containerized ocean transport. For both goods transport and telecommunications, *volume*, not distance is the key. The large container routes of the world are the (global highways - a true interstate system of the oceans - but these routes are limited to a few strategic corridors, which can generate enough traffic to support large capacity intermodal systems. Despite Marshall McLuhan's catchy phrase about the global *village* it does not exist. Global highways favor regions of large concentrations of population, travelers and goods. Much remains to be done to facilitate access to global systems for regions that today are peripheral to the global highways.

There are important questions to be explored concerning the regional and local impact of containerization on trade and the world economy. This brings it's to questions of national shipping policy and globalization.

Changes in container terminal operators. With the expansion of the container industry, the structure and organization of terminal operations have changed. Today there are three categories of container terminal operators: (i) port authorities that have decided to become directly involved in handling containers, such as the public ports of Singapore and the Virginia Port Authority or the private ports of Felixtowe or Freeport. However, this category has been on the decline with the emergence of port corporations; (ii) private port terminal operating companies involved in a process 'of concentration, including stevedoring. The 15 main operators have expanded their activities outside of their ports of origin, associating themselves with large stevedoring groups (e.g. PSA Corporation, Hutchinson, ECT, P&O Ports, and SSA); and (iii) the shipping lines that have decided to control and manage their own container terminals. This decision was made for two main reasons. The first was for strategic reasons, because these global transporters are involved in hub and transshipment ports and therefore need to control their operations, including docking priority and guaranteed availability of equipment for use. The second was to reduce costs, i.e. for savings, based on economies of scale and better control of terminal expenses.

Bangladesh the historical perspective of regional integration. Prior to 1947, the -region comprising, the North East of India had substantial economic and social intercourse with the neighboring countries. East Bengal (later called East Pakistan

and ultimately Bangladesh) was well integrated with the North East. There is evidence that trade and migration into territories today comprising Tibet, Myanmar, Yunnan province of China, Nepal, Bhutan and Sikkim were important to the economy of the region.

However, partition and independence ended whatever remained of this intercourse. The partition transformed the region at the crossroad of emerging Asia, into a landlocked outpost of a large continental economy. The huge landmass comprising the seven states (Assam, Arunachal, Manipur, Meghalaya, Mizoram, Nagaland and Tripura), approximately 225,000 sq. km., was now cut off from its hinterland by the creation of Bangladesh. Linked by 37 km. wide Siliguri corridor with the rest of India, it soon lost its natural advantage as its integration with the economy in the south and the west was disrupted by trade and industrial policies pursued by independent India.

It needs to be emphasized that the physical infrastructure for facilitating trade and economic links between the North East Indian states and the neighboring countries is lamely absent. Indeed, one can argue that the links are weaker today than they were in 1947. The Stilwell Road is now a mere muddy track and the rail links with Bangladesh stand severed. Infrastructure bottlenecks and delays at border points add substantially to the transaction cost in international trade.

The environs of Chittagong & Mega port development

The role and significance of ports has changed dramatically during the past decade and today they have a much higher profile both economically and technically in maritime and international trade. Not only is the port a link in international transport chain, but also many of the major ports such as Rotterdam, Singapore and Hong Kong have become trading center.

The development of the free trade zone situated in the port environs offers to international entrepreneur a range of industrial and marketing benefits which are difficult to find elsewhere. These include: unrestricted international exchange of goods, free of Custom duty or examination until leaving the area, excellent distribution access to the Port's global/regional maritime services and overland infrastructure systems, low land

Rents and favorable tax breaks and availability usually of high-tech low cost labour and Immediate access to local and regional markets with less risk of trade impediments. Overall, the FTZ enables companies to import products/components for assembly, Processing, labeling and distribution to neighboring markets or for dispatch to more distant ones.

The vision was rightly explained by Professor Mohammad Yunus as “*Mega-port at Chittagong is the key to making Bangladesh the cross-road of the region. With the economy of the region growing at a sustained high speed, demand for the access to a well equipped well managed port will keep on growing. A region, which includes two giant economies, will be desperately looking for direct shipping facilities to reach out to the world. Chittagong will offer the region the most attractive option. Even today despite the problems of present Chittagong port, Kunming is requesting permission to utilize this facility.*

With global competition becoming more fierce shorter and shorter lead time for delivery will become magic formula to attract business. An efficient mega port at Chittagong will be in high demand. This port can be built and owned by national or international company with government participation in equity. It can contract out the management of the port to a professional port management company. “

Conclusion

A key effect of economic globalization is the continuing increase in maritime trade and traffic. While the new economy that helps fuel globalization is knowledge-based, the fact is that knowledge needs to be transformed into goods and services. These goods and services need to be transported internationally. While personnel may travel by air, most goods can travel economically only by sea. If globalization indeed results in an increase of world trade and cross-border networks and flows, it will necessarily result in an increase in maritime traffic.

In the coming years Bangladesh should strive for a surge of foreign private investment in power, as telecommunications services and ports. More reliable supplies of power. Gas, telecommunication, transportation and port facilities would support the accelerated growth of industry and agriculture. Private participation in these sectors is just starting and Bangladesh needs to provide credible assurances to investors that their efforts will not be thwarted by bureaucratic process, lack of adequate resolve in implementing declared policies or regulatory stranglehold. Quick, effective implementation of port reforms could help mitigate a major constraint for the export-led growth which Bangladesh wants to pursue.

Let's make Bangladesh the cross-roads of the region — Professor Mohammad Yunus.

Notes

Professor Muhammad Yunus “Growing up with two giants” New Age, Feb 45.2006

Sushil Khanna “Economic opportunities or continuing stagnation” IIM Calcutta.

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