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Why Hong Kong's container port may be in terminal decline, and what that would mean for a city that appears not to care

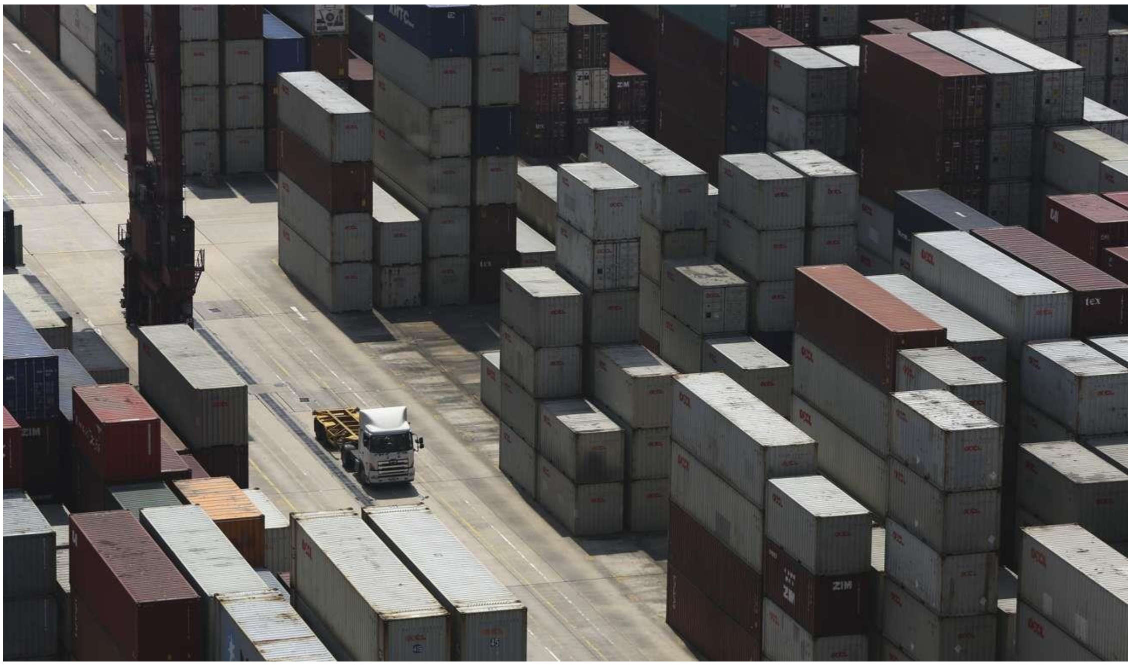
Hong Kong's wealth has grown with the container shipping trade for five decades, but if the city's port is allowed to decline much further it could go under, with big consequences for consumers and employment

It's been one of the biggest drivers of Hong Kong's prosperity over the last five decades: an innocuous steel box 40 feet long. The humble shipping container carries more than 80 per cent of the world's freight. In a port city like Hong Kong, founded on trade, it's been the cornerstone of the city's growth.

In February 1967, the Container Committee urged government and business to embrace the emerging trend for container shipping and support a purpose-built port at Kwai Tsing. It was a huge financial gamble requiring a proposed initial investment of HK$281 million, but Hong Kong grasped the nettle. Reclamation, dredging and development was well under way by 1970 and the first container berth, owned by Modern Terminals, opened to service its first container ship in September 1972.

The facility grew and by the 1990s was the largest container port in the world. It held the ranking for a decade, as Hong Kong became the trade gateway to China.

In 2015, Hong Kong's port was the world's fifth biggest, still significantly larger than those of Xiamen in southern China, Rotterdam and Los Angeles. However, there are signs the world's container shippers are falling out of love with Hong Kong .



"Hong Kong, as a container hub port, is severely under threat," concludes a report published by Hang Seng Management College late last year. One of its co-authors, Dr Collin Wong Wai-hung, thinks it should be a serious concern for the entire city.

"It is not yet a disaster but it's something that requires immediate action," she says.

The report says that, although between 2011 and 2014 the "drop in container throughput was stabilised", since 2015 there has been a "significant drop".

According to the report, in 2014 port and logistics activities contributed HK$75 billion to the Hong Kong economy, representing 3.4 per cent of its GDP and supporting 9,500 companies and 190,000 jobs – 5 per cent of total employment in the city.

The indirect economic value extends far beyond the port into the "maritime service cluster" based around Hong Kong's shipping register, which is the fourth largest in the world. The cluster comprises ship management, ship broking, ship finance, maritime insurance and law, which the Trade Development Council says "has generated considerable economic benefits and job opportunities in Hong Kong". Trading and logistics as a whole account for 23.4 per cent of Hong Kong's GDP and more than 20 per cent of all jobs, and the container is at the heart of much of it.

Growth may be static but it doesn’t mean this is a sunset industry

JESSIE CHUNG

Threats to the industry include a general downward trend in, and uncertainty about, global trade, but there are other risks local and specific. Chinese ports are closer to the country’s factories, and over the past decade they have expanded and upped their game, often under Hong Kong ownership. While Hong Kong’s container throughput has tailed off significantly since 2015, its share of total Pearl River Delta throughput has been shrinking for 15 years, from 77.8 per cent in 2001 to 45.3 per cent in 2015.

Wong and her colleagues point to a more recent local threat that has given the whole industry the jitters: changes in China’s rules for what is known as cabotage – the shipping term for transporting cargo between a country’s domestic ports.

Future of Hong Kong's container port industry in jeopardy

For many years, Hong Kong has benefitted from Chinese cabotage rules which (like those of many countries, including the United States) allow only Chinese-owned and -flagged vessels to carry cargo between domestic ports. In practice, this has meant that international shipping lines opt to access Chinese ports via Hong Kong (which counts as an international, not a Chinese port under the “one country, two systems” arrangement) and so avoid the cost and risk of using a Chinese third-party carrier.

In September 2013, cabotage rules were relaxed within the Shanghai Free Trade Pilot Area, and in 2016 this relaxation was extended to the ports of Qingdao, Shenzhen and Nansha. This rule change means those ports can now do the same job as Hong Kong and act as transshipment hubs for smaller Chinese ports. Wong’s team calculates it could result in a 14 per cent decrease in the Hong Kong port’s container throughput.

“We are voicing our concerns to authorities in China. We are worried that following these relaxations, more ports will follow course. It’s a critical issue for us,” says Jessie Chung Wai-yin, chairwoman of the Hong Kong Container Terminal Operators Association.

Chung’s 12th floor office looks out over the 24 berths at the Kwai Tsing container port, operated by five business groups and capable of handling 20 million twenty foot equivalent units (TEUs) every year. She refrains from using the words “crisis” or “disaster” and instead says container terminal operators are working hard to increase efficiency.

> All of Hong Kong will pay the price if the container port fails
>
> COLLIN WONG

“Growth may be static but it doesn’t mean this is a sunset industry. We are still double the size of Hamburg, but throughput is decreasing 1 per cent to 3 per cent every year,” she says.

A 2015 report by Deutsche Bank is less optimistic, forecasting the port’s business will shrink by 50 per cent in 10 years. The recent report by Hang Seng Management College incudes a graph of three forecasts for future container throughput in Hong Kong. All show an alarming downward curve.

The Hong Kong port’s competitiveness relies heavily on infrastructure and policy development, and on collaboration with nearby cities. This requires government action. Despite the acute concerns within an industry so critical to Hong Kong’s economic success, the government has been slow to offer support. There are no sweeteners like those offered to the construction and tourism sectors in Financial Secretary Paul Chan Mo-po’s recent budget.

Hong Kong’s port seeks new role amid mainland China competition and decline in container throughput

“We are asking the government for more land. We don’t have enough backup land and we don’t have enough barge berths,” says Chung. The latest generation of container ships are bigger, up to 400 metres in length, and able to carry up to 19,000 TEUs.

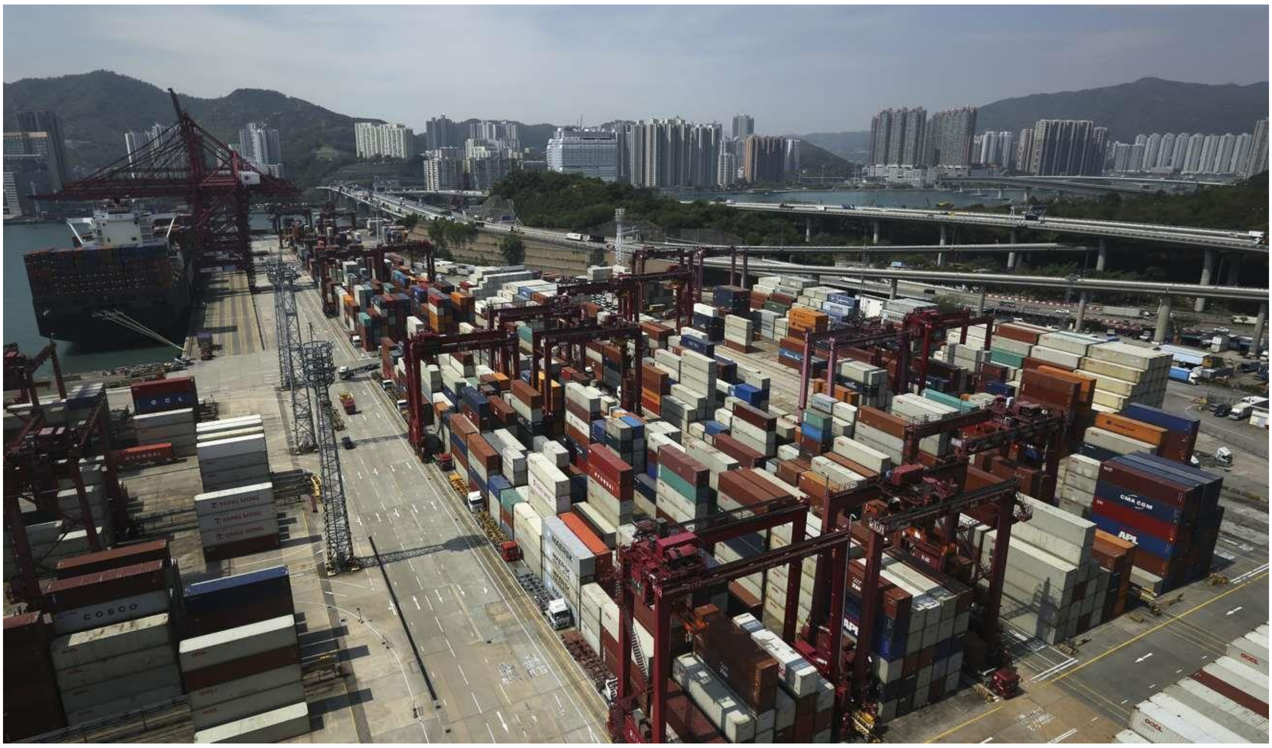
Transshipment of bigger cargoes requires more storage space and more containers arriving by barge, which is cheaper than road transport.

Port administrators identified 70 hectares of land adjacent to container berths in 2014, but three years later only 15 hectares has been promised, and only eight hectares are in the process of being transferred.

“With the airport, we did not wait for capacity to be 100 per cent full before planning the third runway, but that is exactly what is happening with shipping,” says Wong, pointing out that Chek Lap Kok handles between 1 and 2 per cent of Hong Kong’s cargo, while the container port handles more than 90 per cent.

She also explains that ports such as Singapore and Shenzhen operate a so-called one-window system, through which shippers present their cargo documentation to an online platform, and all the complexities of securing government export permits and licences, quotas, tariffs, and so on are managed in one go. Hong Kong still requires shippers to navigate an elaborate paper trail and does not expect a one-window system to be implemented for another eight years.

Chung says the establishment of a Maritime Board after the 2016 policy address was welcome, and there has been no shortage of encouraging talk, but when it comes to action they “never seem to reach the light at the end of the tunnel”.



Wong says she has detected a popular narrative among the general public and some Legislative Council members that the port should be allowed to decline and fail so the land it occupies can be used for much needed housing.

Time for Hong Kong’s shrinking port sector to find new purpose

“We need to convince the public that this industry is important for the city,” she says, and points out that if the port closed, prices of everyday goods would probably double or treble.

Chung agrees that the container port suffers a public perception problem. “I don’t think that people are that interested in the port, but it’s vital to the city’s economy and it’s not dying,” she says.

Both Chung and Wong identify several positive opportunities for the container port, but Wong fears if nothing is done to address the gradual decline, the shipping industry will abandon Hong Kong en masse – to the detriment of the whole city.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CONTAINER COMMITTEE'S REPORT

Entire Project May Be Left To Private Enterprise

Fifty years ago, when the Container Committee reported that “the community is dependent on the quality of the port and its shipping services”, this was an unchallenged fact, and its recommendations made front page news and provoked leading editorials in this newspaper and others.

Five decades later, as the container port faces acute challenges that threaten its long-term future, few outside the industry seem to care, and Wong thinks this is short-sighted.

“All of Hong Kong will pay the price if the container port fails and logistics prices will be very high,” she says.