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Supported by Singapore's expertise in the maritime industry, the port of Singapore is expected to continue to flourish, says SMU's Joyce Low.

A mock-up view of Tuas Mega Port when completed.

SINGAPORE: The port of Singapore has served as a focal point for trade and cargo, bringing life to the city and contributing immensely to the Singapore's economy.

The new Tuas Mega Port, when completed, will be strategic in helping Singapore cope with the anticipated growth in container volume and enhance its position as the leading container transshipment hub in Southeast Asia.

The move is an economic win. The construction of the new port at Tuas cannot be timelier, as the leases for Singapore port's three city terminals (namely, Tanjong Pagar, Keppel and Brani) and Pasir Panjang will expire in 2027 and 2040 respectively.

Tanjong Pagar operations is currently concentrated on ancillary services such as car transshipment. Since 2016, Singapore port operator PSA has begun to relocate container operations from the city terminals at Keppel and Brani to the newer Pasir Panjang Terminal. However, Pasir Panjang does not have enough land to accommodate the predicted future growth.

After the lease at Tanjong Pagar expires, the site can be more profitably redeveloped into a commercial and residential district as part of the Greater Southern Waterfront City project. Environmentally speaking, port operations is pollutive, and therefore unsuited to continue its place in the city.

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File photo of the Singapore Strait. (Photo: AFP/Roslan Rahman)

The move will bring new shipping opportunities. The new port can accommodate mega-vessels that hold 24,000 standard-sized containers or more, with long linear berths and deep-water capabilities, and will run on the latest port technologies and systems including digitalisation and automated guided vehicles, yard cranes and quay cranes.

Tuas is a fantastic location because it enjoys proximity to major domestic industrial areas and international shipping routes.

The consolidation of container port activities at Tuas can help cater to the complex needs of shipping alliances, achieve greater economies of scale and boost efficiency by eliminating the need for inter-terminal haulage, which can also cause road congestion.

MOVEMENT IN THE WAVES THAT CARRY TRADE

Southeast Asia holds the world's leading transshipment market.

Singapore, as the region's central hub port, is responsible for about 26 per cent of the global transshipment and for facilitating trade traffic that is valued at US$5 trillion, the bulk of which includes transshipments from mainland China, Japan, Hong Kong and the Far East Asia, and exports to China, Malaysia, Indonesia and the US.

The top exports and imports include integrated circuits, refined petroleum, gold, computers and packaged medicament.

Having one of the highest participation rates in global value chains means Singapore is likely to be greatly affected in the event of a trade war between US and China. Currently, the bilateral trade between the US and China indirectly contributes to 1.1 per cent of Singapore's gross domestic product (GDP).

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If the trade conflict subsequently vitiates into a vicious cycle of tit-for-tat measures between major economies, the volume of shipping at the Singapore port will drop as trade flows are disrupted and global consumption and investment are reduced with weaker market sentiment.

Shipping containers are seen at a port in Lianyungang, Jiangsu province, China September 8, 2018. (File photo: REUTERS)

Nonetheless, there is good reason to be optimistic about Singapore's future outlook given its strong trading networks and diversified sectors that should enable companies to navigate the disruptions and seek out new opportunities, alternative suppliers and demand markets.

GOOD REASONS TO BE OPTIMISTIC DESPITE NEW CHALLENGES ON THE HORIZON

Some industry players have predicted that trade routes might be transformed and hundreds of billions of trade volumes might be redirected away from Singapore once China's massive Belt and Road Initiative projects in Malaysia become operational.

Most have in mind the US$10 billion project in Malacca and developments in Port Klang.

The East Coast Rail line, added as a land bridge between Port Klang and Kuantan port in Malaysia (and several other smaller ports in the East Malaysia), provides an alternative and shorter route for freight transportation from the Straits of Malacca and Singapore to the South China Sea that bypasses Singapore as the transit point.

Nonetheless, the need to unload, transport and reship cargo at Kuantan ports and re-ship from there to Port Klang raises questions on the economic feasibility of this route.

Furthermore, the port in Malacca does not provide container handling services, so it is unlikely to displace Singapore. The biggest risk is to revenue from bunkering services in the Singapore port may face some degrees of decline.

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Another related project is the proposed construction of the Kra Canal, which links the Indian Ocean and the South China Sea. When completed, the transit distance of oil to East Asian countries will be reduced by 1,200km compared to travelling through the Straits of Malacca.

Workers carry out a bunkering demonstration, transferring liquefied natural gas (LNG) to a ship. (Photo: Pavilion Energy)

The proposed Kra canal is expected to work synchronously with the port of Hambantota in Sri Lanka, for which China has recently acquired the rights to use. Centered in the middle of the Indian Ocean, the Hambantota port has a deep-water coastline in proximity to major India

However, compared to past projects such as the Suez and Panama canals that reduce travel by 800km and 5,000km, the effort required to complete the Kra canal and the environmental implications seem undeserving. Coupled with the lack of government support, the feasibility of the Kra canal's completion does not look optimistic.

On the other hand, the establishment of the China-Pakistan Economic Corridor (CPEC) may potentially lower the volume of trade passing through the Singapore port. CPEC plans, which cover the Gwadar airport and seaport, railway, pipelines and free-trade zones, are intended to enable China to procure oil from Iraq and Iran.

By going through the Gwadar-Kashgar pipeline, Singapore's oil refining industry can be compromised as the demand for transport via oil tankers diminishes.

Aside the Malaysian ports, the Singapore port has to continuously watch out for other regional competitors who are eyeing bigger slices of the transshipment pie and boosting their infrastructure.

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Vietnam, Indonesia and Thailand have invested heavily in modern deep-water facilities, to attract more large vessels to call at their ports. Myanmar also has plans to develop the Kyaukpyu Port, the Kalaguak Port and Dawei Port to connect India to China.

Sri Lanka in 2017 granted Beijing a 99-year lease on the Hambantota deep-sea port, situated along key shipping routes (Photo: AFP/LAKRUWAN WANNIARACHCHI)

With these advances, cargo can be transported directly to Vietnam using a more cost efficient route, and not through transshipment at a port in the Straits of Malacca. Similarly, Bangkok plans to use the port of Dawei for Thai exports to avoid shipment through the Straits of Malacca.

Last but not least, the land connection towards West Asia and Europe may decrease vessel transits through the Bay of Bengal. In particular, the trans-Eurasian rail services provide an alternative for freight forwarding companies to transport cargoes into China, possibly cannibalising the traffic that would otherwise call at the Singapore port.

PROSPECTS FOR TUAS MEGA PORT

Supported by Singapore's expertise in the maritime industry, a strong global financial centre, skilled workforce, advanced logistics infrastructure and a stable and corruption-free political environment, the port of Singapore is expected to continue to flourish.

Singapore's comprehensive suite of free trade agreements with over 30 trading partners all but guarantee market access to the world when one calls at the Singapore port.

Singapore has shown to perform well in cementing its dominant position as the port of call in the region amid intensifying competition.

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The Alliance and Ocean Alliance have moved their scheduled dockings from Port Klang to the Singapore Port in 2017. Major names in global shipping, such as France's CMA CGM and Japan's newly-established Ocean Network Express, have recently established head offices in Singapore.

CMA CGM operates in 160 countries and has a fleet of 494 vessels AFP/Robyn BECK

The opening of the Tuas terminal will allow the Singapore port to handle the equivalent of 65 million TEUs annually, making it the largest single mega container terminal in the world. The Tuas terminal will be able to process ultra-large container vessels bigger than the present-day's mega container vessels.

Presently, there are only two ports in Southeast Asia which can accommodate 19,000 TEUs, the other being Tanjung Pelepas.

As Singapore is strategically situated at the mouth of the Straits of Malacca, the total logistics cost of using its ports may still be comparatively lower for firms even though the stronger Singapore currency makes the terminal fees costlier than its neighbours.

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