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FULL STEAM AHEAD

In the wake of its footballing escapades, South Korea continues to ride a wave of economic euphoria – and with ports operations central to its growth plans, it's no surprise to find Hutchison involved in the action.

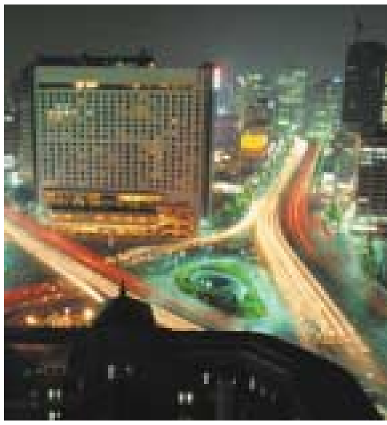
By Cortlan Bennett

Geographically wedged between China and Japan, history hasn't always been kind to Korea. A proud land living in the shadow of giants, it has often had to struggle to forge its own national identity. Admittedly, Korea itself was to blame at times. For centuries the "Hermit Kingdom" closed its doors to the outside world, until it was overwhelmed and annexed by Japan in 1910. After 1945, its strategic position next to Cold War Russia led to the 1950-53 Korean War. The Korean Peninsula today remains ideologically, culturally and economically divided between North and South.

But times are changing. With an air of rapprochement, the two sides recently agreed to push road and rail links through the world's most heavily guarded border. The move will provide South Korea with hinterland access to China and Europe.

Just four years ago, South Korea was in financial crisis and had to be bailed out by the International Monetary Fund. Since then it has deregulated its markets, paid off its US$58 billion loan, and attracted a similar amount (US$52 billion) in foreign direct investment – more than it had seen in almost 40 combined years prior to 1998.

This year, South Korea's first half GDP was up 6.1% on rising exports and domestic consumption, while the main Kospi index has been outperforming major share markets around the world. The central Bank of Korea is sitting on the world's fourth-largest foreign reserves – US$116 billion as of end-August – behind Japan, China and Taiwan and ahead of Hong Kong.



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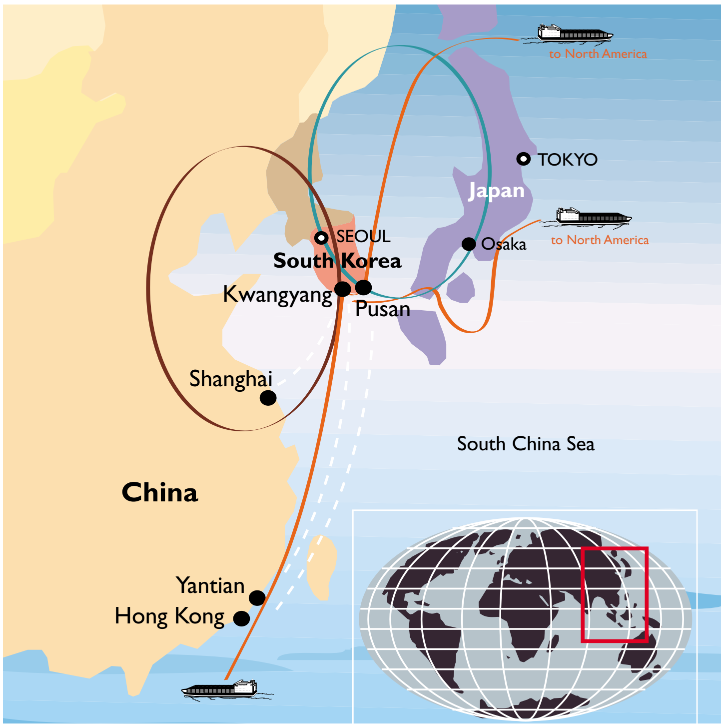


The re-emerging nation has even managed to teach its traditional European and Asian rivals a thing or two about football, reaching the semi-finals of the Fifa World Cup, which it co-hosted. Indeed, the link between global economic growth and sporting achievement is not as abstract as it appears.

Like its fast-reforming economy, South Korea's recent World Cup success owes much to foreign influence. Dutch coach Guus Hiddink took a young team full of potential, cut through traditional Korean management styles and structures, and taught them how to compete – and win – on the world stage. He was declared a national hero.

On the Ball

With Hiddink's sporting achievements in mind, the world's leading port developer and operator, Hutchison Port Holdings (HPH), is helping South Korea realise its economic potential.

In May last year, Korea International Terminals (KIT) – a local consortium comprised of HPH, Hyundai Merchant Marine and Hanjin Shipping – was granted the rights to develop and operate seven berths at the new Kwangyang Container Terminal (KCT) Phase 2, situated along the south-central coast.

While the investment in Kwangyang was initially viewed as a long-term strategic move into North Asia – aimed at complementing Hutchison's expanding port network and existing terminals in China – a surprise move in January saw the company become a major player in South Korea almost overnight.

HPH secured three deep-water container terminals from Hyundai Merchant Marine. These included South Korea's busiest container terminal – Hutchison Busan Container Terminal (HBCT), located at the port of Pusan; a separate 50,000 tonne berth in Pusan – Hutchison Gamman Container Terminal (HGCT); and another in Kwangyang – Hutchison Kwangyang Container Terminal (HKCT), just four berths down from KIT. These are now held under Hutchison Korea Terminals (HKT).

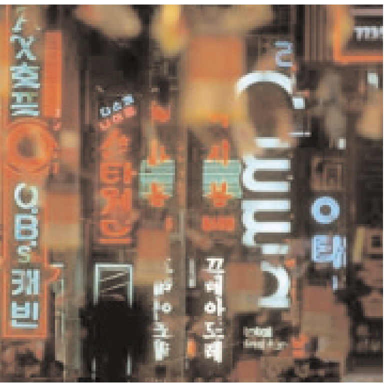
"Being wedged between China and Japan is a distinct advantage."

"The timing was perfect," says KIT Chief Executive Officer Paul Ho. "We've noticed that as the Korean Government started to open up the economy to attract foreign investors four years ago, there have been a lot of changes. But in just the past few months, the pace of change has been even faster. I can see more foreign companies wanting to move in.

"In fact, it's moving both ways. After Hiddink led the national football team to success, smaller communities outside Seoul like Kwangyang, which are traditionally very conservative, opened up and became more accepting of foreign companies and ideas. Previously they might have been worried about protecting their local industry. Now they look up to someone like Hutchison and say: 'Yes, that's good for our local industry'."

HPH Korean Country Advisor Park Chong-man agrees. "The result of hosting and progressing through the World Cup was very successful. Right after that, we Koreans felt a confidence that we could really achieve things. This atmosphere spread throughout all areas – into local industry, into the economy and general psychology of the people."

So much so that the government has announced an ambitious drive to turn South Korea into the logistics hub of Northeast Asia. And for once, being wedged between the world's largest market – China – and its second-largest economy – Japan – is a distinct advantage.




Right Place, Right Time

If real estate is all about "location, location, location" so, too, is the container shipping industry. Time is money. If trunk routes can be shortened, or ports of call reduced, so can costs. The way it works is that large mother vessels call at major ports, picking up and dropping off bulk containers along a given (trunk) route, and then turning around at the end of each voyage to complete a never-ending loop.

Due to their sheer size, mother vessels can only berth at certain hub ports. They are also expensive to dock, load and unload. For this reason, smaller feeder vessels ply transhipment cargo from other ports – sometimes from other countries – to each main hub. There it is stored (along with domestic cargo) until a mother vessel arrives to collect it – or drop off transhipment cargo going in the opposite direction.

Finding the most efficient way to transport containers and other goods is all about logistics. But just what gets shipped to where depends on ever-shifting global trends. Whilst Hong Kong's combined sea cargo fell 2% last year, and Singapore slipped more than 10%, Pusan quietly posted 3.5% growth to bump off Taiwan's Kaoshiang as the third-busiest container port in the world.

In the first half of this year, combined cargo-handling by South Korean ports shot up 12.9% and is expected to top 10 million TEUs by the end of the year. This figure represents a 43% surge in container handling for Kwangyang to 517,594 TEUs, a 15.4% rise for Incheon to 355,000 TEUs, and an 8.5% rise for Pusan to 4,273,000 TEUs for the first half year.

Government Policy

So why the sudden swing to South Korea? Apart from the gov-

Hutchison Port Timeline (Korea)

(A glance at HPH's container terminal acquisitions and operations in Korea.)

December 1986
Kwangyang Port officially opens.

December 1987
Civil works begin on Kwangyang Container Terminal Phase 1.

September 1996
Civil works begin on Kwangyang Phase 2-1.

December 1997
Civil works completed for Kwangyang Phase 1 at an estimated cost of US$340 million to the Korean Government.

July 1998
Kwangyang Phase 1 officially opens with 4 x 350m deep-water berths totalling 1.4km.

May 2001
Korea International Terminals (KIT), a consortium comprising Hutchison Port Holdings, Hyundai Merchant Marine, and Hanjin Shipping, is granted the rights to operate and develop seven berths at Kwangyang Phases 2-1 and 2-2.

December 2001
Civil works completed for Kwangyang Phase 2-1 at an estimated cost of US$280 million to the Korean Government.

January 2002
Hutchison Port Holdings secures three existing container terminals from Hyundai Merchant Marine. Hutchison Korea Terminals (HKT) becomes the holding company for: Hutchison Busan Container Terminal (HBCT), Korea's busiest container terminal with over five berths (1,460m total) in 2001; Hutchison Gamman Container Terminal (HGCT), a single 350m berth located in Busan; and Hutchison Kwangyang Container Terminal (HKCT), a single 350m berth located at Kwangyang Phase 1.
This gives HKT seven berths

ernment's plans to spend a combined US$1.5 billion on port infrastructure this year, including the development of an advanced automated exchange (logistics) system for Pusan, its "Dual Port" policy highly favours transhipment. The long-term strategy aims to develop Kwangyang into a world-ranked port whilst upgrading existing facilities at Pusan. It also offers incentives: Kwangyang is a Customs Free (no inspections) and Tariff Free Zone, whilst Pusan shares the latter status.

Although 150km separates the two ports, the aim is to have them complement each other. Kwangyang is expected to ease pressure on Pusan – which presently handles 90% of South Korea's import-export cargo – whilst becoming a major transhipment hub for north-eastern China. Pusan, in turn, is expected to continue to attract transhipment cargo from far eastern Russia and Japan. Transhipment cargo from Japan to South Korea jumped 36% last year.

"Japan's share of transhipment cargo has decreased, but South Korea's is increasing mainly because of the difference in tariffs," explains HKT Pusan Terminal Manager Kim Yong-hak. "Tariffs in South Korea are about one third of what they are in Japan. In fact, our tariffs are even half those in Shanghai. Also, Pusan is located on all the main trunk lines from Asia to the US, Europe and Australia, so there's no deviation for mother vessels to dock here."

HKT Chief Executive Officer Choi Won-jong explains further. "European services are starting to turn around here instead of in Japan because it's cheaper, more efficient and they can save transit time. Especially nowadays, transhipment cargo from northern China and western Japan is moving into Pusan because geographically it's better located."

As far as the figures are concerned, the government's policy seems to be working. Combined transhipments surged 26.9% in

totalling 2.16km with a combined 3 million TEUs annual capacity.

January 2002
KIT places a security deposit on first rights to Kwangyang Phase 3 development.

April 2002
KIT leases and operates three of the four deep water berths totalling 1.15km.

December 2003
KIT scheduled to begin part operations at Kwangyang Phase 2-2.

March 2004
Civil works scheduled to be completed at Kwangyang Phase 2-2 at an estimated cost of US$280 million to the Korean Government.

KIT scheduled to begin full operations with seven berths totalling 1.95km with a combined 2.5 million TEUs annual capacity.

2008
Kwangyang Phase 3 with a 1.4km long quay is scheduled for completion at an estimated cost in excess of US$500 million.

Hutchison Port Holdings (HPH) → Hutchison Korea Terminals (HKT) →

- Hutchison Busan Container Terminal (HBCT), (Pusan)
- Hutchison Gamman Container Terminal (HGCT), (Pusan)
- Hutchison Kwangyang Container Terminal (HKCT) (Kwangyang)

the first half of this year to 1,841,000 TEUs, whilst import-export cargo posted a more modest rise of 6.1% to 3,391,000 TEUs. Pusan in particular posted 23% transhipment growth to 1,714,000 TEUs, which accounted for 40.1% of its total cargo.

But it is Kwangyang that appears to have the most potential. In the first half, it posted a 204% rise in transhipments to 130,867 TEUs, mostly from north-eastern China. Adds KIT's Paul Ho: "There's lots of cargo in northern China, but unfortunately, although they have nice ports, places like Dalian and Qingdao are not on major trunk routes, so that's why Korean ports have the advantage."

Uncharted Waters

Still, operating in South Korea is not always smooth sailing. While the fundamentals are in place (the country is the world's largest ship-builder, possesses a solid export industry based on steel, automotives, semiconductors, information technology and textiles, and has a rapidly growing domestic market) it is steeped in tradition. To the outside observer the nation may appear to be on the cutting edge of industrial and technological advancement, but it comes as a surprise to many to learn it still has a decidedly traditional way of doing business.

"Business is built on relationships, and these relationships take time to build. Once trust is established, business can be very rewarding," says HPH Korea Finance Manager Alex Choi.

"I think language is a particular challenge," says KIT Terminal Manager Robert Poon. "Outside of Seoul, English is not widely spoken. Learning to speak the local language is not a matter of choice but a necessary mandate."

KIT Project Manager Neil Proud agrees. "Having lived in Burma, Vietnam and many other locations, I would rate this posting the most challenging I've experienced. In developing countries you quickly find people who speak English and then you have some level of communication. Here it is difficult to find English-speaking staff outside of the capital Seoul and it then takes some effort to persuade these English speakers to relocate to Pusan and Kwangyang."

Setting a Course

But times change. And so do perspectives. Over the next 10 years, Northeast Asia's role in the global logistics market will rival that of North America and Europe. China is increasingly attracting investment from manufacturers across the world, and is emerging as a global production base. The combined GDP of Japan, China and South Korea has almost doubled over the past decade, accounting for 20.6% of total global GDP. The three countries fuel 12.8% of total world trade.

Finally, there remains the unresolved issue of North Korea. Political considerations aside, many outside observers believed South Korea would never be a natural gateway to Asia because it lacked a hinterland connection to the continent. However, recent developments between the two sides could see that dream realised by early next year to the economic benefit of both. While direct access to the Trans China Railroad and Trans Siberia Railroad may affect some shipping routes in the short term, ultimately it may further advance South Korea's claim to be the region's logistics base.

And then, of course, there are its people. "Whatever you think about the Korean way of doing things," says Choi, "still, you have to ask yourself: 'Why are they so successful?' It's the people. Koreans are hard working, great team players and very disciplined. They are focused. Once they put their mind to something, it's very hard to stop them."

The Kwangyang Advantage

By Cortlan Bennett

THOUGH ONLY A 45-MINUTE FLIGHT FROM Seoul, and just 150km west of Pusan, the south-central port of Kwangyang feels about as remote as is possible to be in South Korea.

The nearest landing strip is Jinju airport, a facility shared with the military and a 40-minute drive through rolling green hills, fruit orchards, rice paddies and raging white-river valleys. Along the coast, mangrove swamps pad out swathes of undeveloped shoreline.

A new four-lane highway cuts through this idyllic, natural setting, with its modern bridge-spans and tunnels forming a swift artery from the isolated southern Korean Peninsula to the nation's industrial heartland.

Kwangyang's only other contact with the outside world is via the Korea Strait. But it is this prime location – a sheltered, deep harbour along the world's major shipping routes – that is rapidly turning this once quiet fishing village into one of the world's biggest and busiest ports.

Industrial giant POSCO was first to move into Kwangyang in 1987, opening an iron and steel mill that has created more than 15,000 jobs. The nearby Yocheon Petrochemical Industrial Complex and Yulchon Industrial Park soon followed, swelling the city's population to about 140,000.

However, with the Korean Government's ambitious plans to turn Kwangyang into an international logistics centre and north-east Asian hub, the city is forecast to triple in size over the next decade.

Phase I of the Kwangyang Container Terminals (KCT) was officially opened under the government's "Dual Port" policy in July 1998. At a public cost of about US$340 million, Phase I took 10 years to complete and added four 15m deep-water berths over a quay area of 1.4km.

In May last year, Korea International Terminals (KIT) was granted a lease to develop and operate seven berths at Phase 2. Phase 2-1 was officially opened on April 15 this year, with Phase 2-2 scheduled for completion by the end of next year.

In the meantime, in January this year Hutchison Korea Terminals (HKT) secured three existing deep-water container terminals from Hyundai Merchant Marine, including Hutchison Kwangyang Container Terminal (HKCT), a single 50,000 tonne berth located at Kwangyang Phase I.

"As you can see, there's an incredible development under way," says KIT Project Manager Neil Proud of Kwangyang. "Obviously Korea has invested a lot of money in infrastructure here since the Asian crisis, so in terms of this terminal, although there might be only 2.5km of existing berth and backup area now, you'll see the hinterland behind us has a lot of potential.

"The London Metals Exchange has already agreed to build a storage facility here to cater to the huge demand for Korean semi-conductors, and other foreign ventures are starting to show more interest."

The Korean Government has just announced the com-

mencement of the development of the Kwangyang Container Terminals Phase 3 (for which KIT has recently put down a deposit). It will incorporate an advanced logistics centre, increase total berth length to 11.7km and boost annual cargo capacity to more than nine million TEUs. But the next decade of development will rely on how effectively Kwangyang can be promoted, and how well it can merge with Pusan.

"Obviously people see us as the "golden goose", so to speak, as we're bringing in business," comments Lee Seok, KIT's CFO. "And we do: when Hutchison moves in to a country, it does put those ports on the map. However, there are a lot of allegiances in the shipping industry, and it may take some time for them to recognise the advantage and move to Kwangyang. That's been eroded to some extent when it comes down to the actual savings – but still, loyalties are fairly strong [in Korea]."

The Korean Government itself realises this and has declared Kwangyang a Customs Free Zone (in addition to its Tariff Free status shared with Pusan) in a bid to attract more start-up interest. Stevedoring costs are now amongst the most competitive in the world – even lower than in China – and the port has subsequently seen a 43% rise in cargo handling to 517,594 TEUs in the first half, including a 204% surge in transhipments.

Although the above figure represents only a fraction of Pusan's total handling volume, KIT Terminal Manager Robert Poon says it's only a matter of time before Kwangyang becomes the transhipment hub of northern China.

"Shipping from Mainland China to the US takes 13 days. But from Kwangyang to the US only takes 11 days. So if you use a feeder line from China to Kwangyang you save two days, which is big time for shipping lines."

Korean inland freighters can also save time and money using Kwangyang. According to the Korea International Trade Association, if just 20% of all container cargo from Seoul and central areas were diverted to Kwangyang, an estimated 40 billion won (about US$35 million) worth of logistics costs would be saved each year. That's an average saving of three hours and US$50 per TEU over the congested Seoul-Pusan rail link.

But perhaps Kwangyang's biggest advantage over its built-up sister port, according to KIT Chief Executive Officer Paul Ho, is it's developing status. "The advantage for any shipping company coming to KIT is we've got excellent brand new facilities and we have space, we can turn them around very quickly and we can guarantee them slots that fit into their window with no waiting period. Kwangyang certainly offers flexibility, but it also offers the same high quality of service that shipping lines have come to expect at all Hutchison ports around the world."

Hutchison Port Holdings, Hyundai Merchant Marine,
Hanjin Shipping Korea International Terminals (KIT) (Kwangyang)

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