

January 20, 2008

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China’s Port Logistics Industry The Suzhou Ports—Changshu and Zhangjiagang

“There is a tide in the affairs of men, which, taken at the flood, leads on to fortune”
 -Shakespeare, Julius Caesar

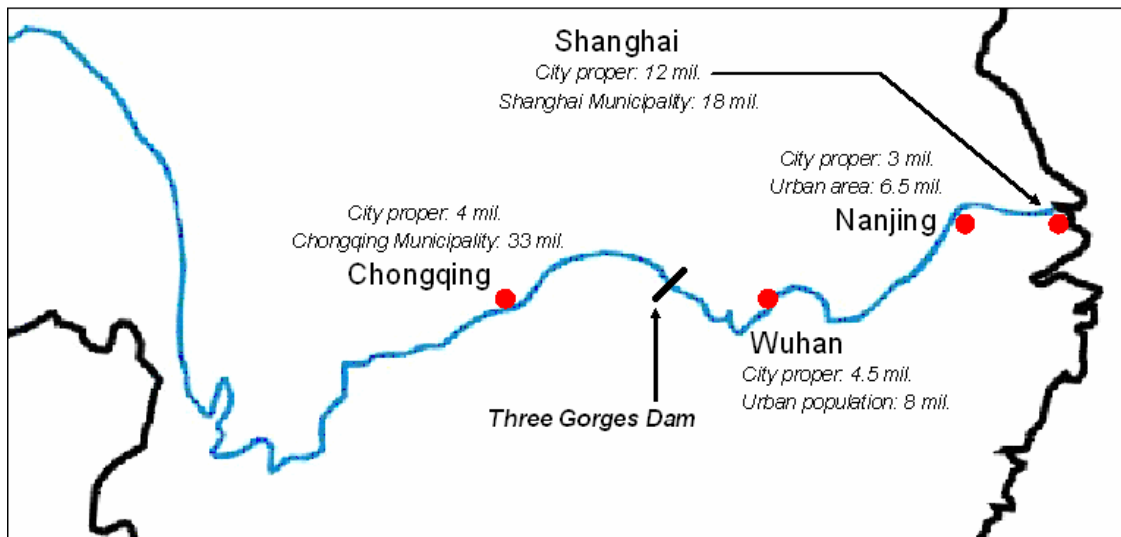
Over the next several months, ChinaVest will continue to provide summary research on the logistics infrastructure in China. Our firm, a merchant bank based in Shanghai, has been operating in greater China since 1981. ChinaVest has a strong connection to the logistics industry. We have owned logistics companies (such as TAIT). We have also distributed products in China (Evian, Heineken). In addition, ChinaVest has been the M&A advisor to a number of multinational firms that utilize China’s interconnected system of ports, highways and rail.

China’s Yangtze Inland Ports:

This report on the ports of Changshu and Zhangjiagang (pronounced Chang-SHOO and Jang-Gee-Uh-Gang, respectively) is the third in our installment of ports along the Yangtze River. In our first research report (May 2007), we highlighted the general dimensions of the port industry in China. We then began a more thorough analysis of China’s inland waterway system and studied the Port of Taicang and then Nantong (August 2007).

When we discuss inland waterways in China, we refer essentially to one river, the 4,000 mile Yangtze, which hosts roughly 80% of China’s inland waterway shipping. The population that resides along this river is roughly the size of the European Union.

Figure 1: THE YANGTZE RIVER—A CLOSER LOOK



The Yangtze is the world's third longest river. Its path slices through the middle of China, beginning in the Kunlun Mountains in the western part of the country, winding its way eastward, and opening up into the East China Sea. Major inland trade is confined between the Port of Chongqing and the Port of Shanghai, and the highest volume occurs between Nanjing and Shanghai. Chongqing lies directly in the center of China while Shanghai is located in the Yangtze Delta, where the river meets the East China Sea.

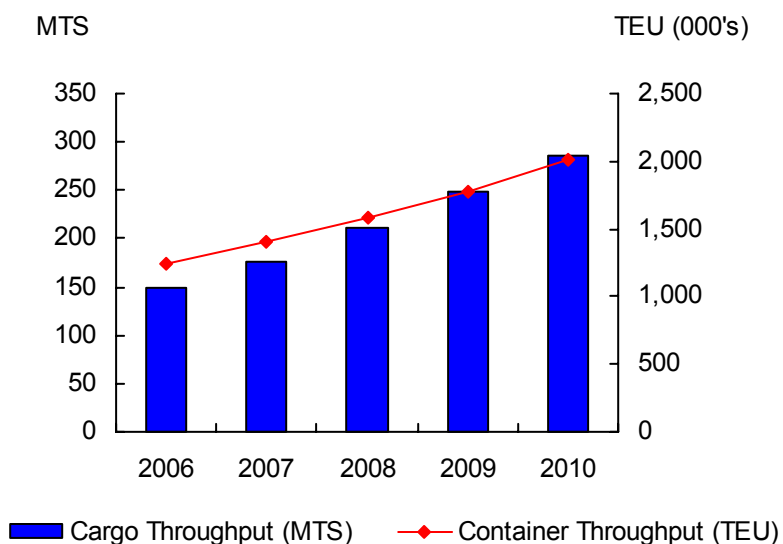
Inland cities located west of Nanjing have historically been more economically depressed than the seaport cities of the eastern coast. Given recent increases in the price of labor along the heavily urbanized coast, second-tier cities in Central China are now attracting new waves of investment. The labor differential, however, still remains quite high. Hourly manufacturing wages in Chinese urban areas are US\$1.19 per hour while compensation for TVE's (towns and village enterprises) is US\$0.45 per hour¹. Though this may seem relatively insignificant compared to the average US\$23 per hour manufacturing labor rate in the United States, it makes a tremendous difference in many low-margin industries.

In recent years, those central cities with ports along the Yangtze have been investing billions in infrastructure in order to attract factories, companies and investors. Manufacturing hubs have sprung up along the river in large numbers, surrounding the ports for easy accessibility. The focus of this report is on two ports: Changshu and Zhangjiagang (see figure 3 for their locations). These two ports, however, are inexorably linked to the inland city of Suzhou (pronounced SOO-Joe).

The City of Suzhou:

Suzhou is an inland city located roughly two hours west of Shanghai by car. This city drives a significant portion of the Yangtze port business; so much so, that the actual ports of Changshu, Zhangjiagang and Taicang sometimes collectively refer to themselves as the "Port of Suzhou" and their collective throughput is represented in the figure below.

Figure 2: THE PORTS OF SUZHOU



¹ Erin Lett and Judith Banister, "Labor Costs of Manufacturing Employees in China," Monthly Labor Review (November 2006): 40.

Suzhou proper has a population of just under 6 million and is one of the oldest cities in the Yangtze basin, dating back roughly 2,500 years. The city is located in Jiangsu Province; 80km west of Shanghai and just south of Zhangjiagang, Changshu, and Taicang, which all fall under the logistical jurisdiction of Suzhou. To the west of the city is Taihu Lake and to the south is Zhejiang Province. Suzhou has easy highway and railway access to Shanghai as well as to the Yangtze River, thus making it an excellent hub for economic development and manufacturing.

Suzhou has developed into one of the most prosperous cities in China, with the fifth highest GDP in the nation at US\$35 billion (following Shanghai, Beijing, Guangzhou and Shenzhen). In the early 1990's, the city established two important economic development zones: Suzhou Industrial Park (SIP) and Suzhou New & Hi-Tech District. Over the past decade, these development zones have grown rapidly and have been a driving force in the economic development of the region. Suzhou Industrial Park specializes in the manufacture of integrated circuits, TFT-LCD's, and automobile and airplane parts. In 2006, the zone reached a total export value of roughly US\$50 billion. Meanwhile, the Hi-Tech District has achieved export values in excess of US\$8 billion and has attracted over 800 international companies including forty *Fortune 500* multinational corporations. Such international corporations based in Suzhou include Motorola, Phillips and Canon, among others.

The figure below provides a geographical perspective of Suzhou and its related ports.

Figure 3: THE SUZHOU PORTS—A CLOSER LOOK



Port of Zhangjiagang:

Zhangjiagang was a small farming village until the 1980's, when economic reforms transformed it into a modern city. Zhangjiagang literally translates to "Zhang family harbor." The city was originally modeled after Singapore and has gained a reputation for being cleaner, friendlier, and wealthier than other cities in China.

Although it is small compared to most Chinese cities, with a population under 1 million, Zhangjiagang boasts a strong economy. The city has investments from over 1,000 foreign companies, a per capita GDP of US\$12,200 (national average US\$7,800), and contractual foreign investment of over US\$6 billion. Like Suzhou, Zhangjiagang has easy access to water, air, and ground transportation to major cities across China. The successful growth of the city has spurred industrial growth throughout the region in key industries, including metals, textiles, machinery, food (oils), chemicals, and construction.



The port of Zhangjiagang was built in 1968 and is now the largest inland international port along the Yangtze River. The Zhangjiagang Port Group is the main port operator. The group is a State-Owned Enterprise directly owned by local governments in Jiangsu Province. The port is linked to 19 international shipping lines that lead to over 140 countries around the world. The port also serves as an important transit route for international shipping through Shanghai.

Zhangjiagang has thirty-three 100,000-tonnage berths which, combined, exceed 300,000 TEUs per year. In addition to providing international shipping services, the port is also an important distribution center for timber, plant oil, steel, chemicals, and other goods to the middle and western parts of China via the Yangtze River.

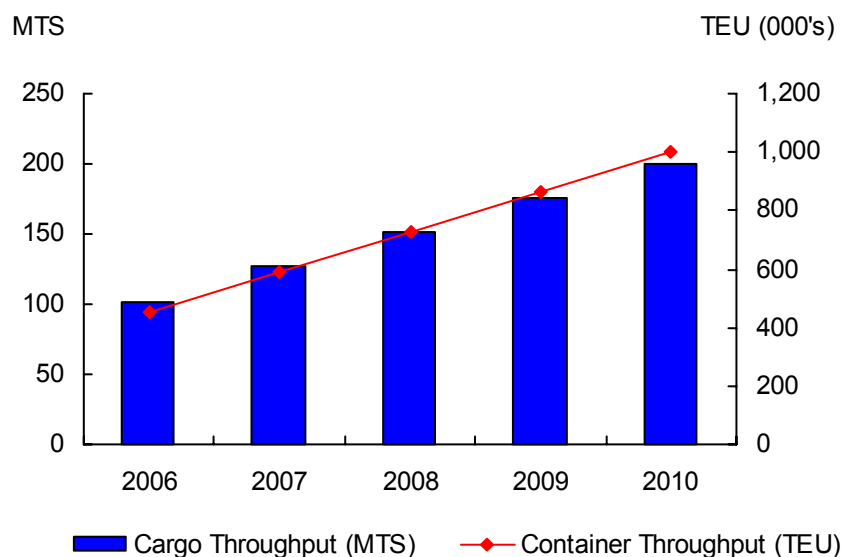
The Zhangjiagang port is also the only inland port in China that operates in a Free-Trade Zone ("FTZ"). This Free-Trade Zone was established in 1992 and has been a driving force in the development of the port and the growth of the city's industry and logistics. The FTZ specializes in the manufacturing industry (electronics, telecommunication equipment, machinery, textiles, medicine, chemicals, etc.), storage logistics industry and R&D facilities. The FTZ has made Zhangjiagang an attractive city for many international corporations, especially in the logistics sector. There are roughly 20 logistics companies in the FTZ and 19 foreign-funded enterprises with a total investment capital ranging from US\$30 million to US\$100 million. The FTZ houses eight *Fortune 500* companies including Dow Chemical, Chevron-Phillips and DuPont.



The FTZ works in conjunction with various other established economic zones including the Zhangjiagang Bonded Logistic Zone, the Jiangsu Province Yangtze River International Chemical Industrial Park, and the Yangtze River Hi-tech Industrial Park. This park, which is focused on the production of various chemicals including petrochemicals, fine chemicals (food additives, paint, paper making, etc.), plastics, and high-tech/ "green" chemicals, has also helped turn the port into an important logistics, distribution and storage center—especially in the petrochemicals area.

The figure below highlights the port's throughput.

Figure 4: ZHANGJIAGANG THROUGHPUT



Port of Changshu:

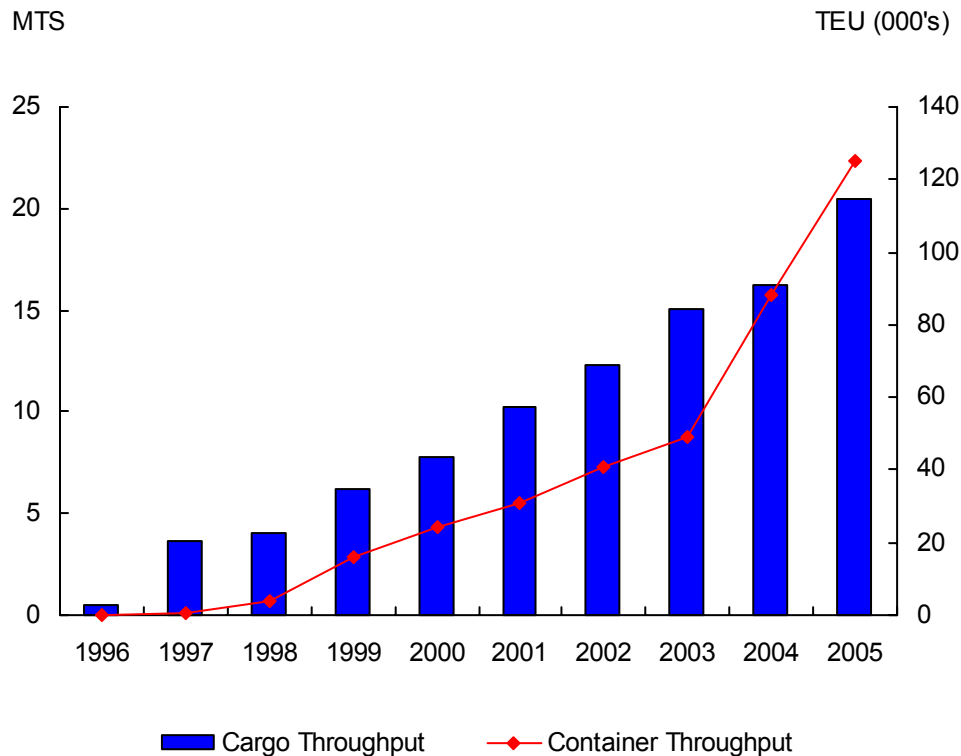
Of the three ports that make up the broader "Port of Suzhou," Changshu is by far the smallest. This port handles 120,000 TEUs a year while the Zhangjiagang and Taicang ports handle roughly 600,000 each. Despite its size, however, Changshu is still one of the top 10 inland river ports in terms of bulk cargo tonnage. Changshu has 29 domestic and international shipping lines that connect to over 250 ports in 53 countries. It is also the second largest export-based port for paper and steel mills in all of China.

Changshu was built in 1996, and since then has grown remarkably to a capacity of over 23 million tons of cargo a year. The municipal government recently approved over RMB10 billion to further the rapid development of the port and city. The port currently has fifteen 10,000 ton berths, but with the new funding it is expected to double in size by 2010.

Changshu is located along the Yangtze River, roughly halfway between Zhangjiagang and Taicang, and has a population of just over 1 million. It was historically a farming town, but has recently become an important manufacturing and export center for Suzhou and all of Jiangsu Province. The city has developed two economic zones to promote industry: the Changshu High-tech Development Zone and Littoral Industrial Park Zone. These industrial zones have attracted over 500 foreign enterprises from 20 countries with total investments exceeding US\$53 million. Changshu has attracted manufacturing companies across many sectors including electronics, lighting, textiles, construction materials, chemicals, pharmaceuticals, energy resources and infrastructure.

The chart below highlights the port's throughput.

Figure 5: CHANGSHU THROUGHPUT

**Conclusion:**

Through the combined successes of the Zhangjiagang, Changshu and Taicang ports, Suzhou has developed into one of the most important manufacturing/logistics centers in China. Not only does it have the advantage of an excellent logistical location, but it also provides access to the largest manufacturing areas of China that produce everything from chemicals to consumer goods. In the future, the port cities of Suzhou will continue to develop their international presence, especially as distribution hubs for the Shanghai-Waigaoqiao port and the Shanghai-Yangshan Deepwater port (further described in our first report on the port industry), two of China's largest ports, and they will work to improve their capabilities in domestic shipping along the Yangtze and through the rest of China.

