

# **Economic Development in Asia and the Expansion of Panama Canal**

**Capt. Wei's Remarks at the National Assembly of Panama**

**May 2006**

**His Excellency Elias Castillo, President of National Assembly:  
Honorable Legislators of Panama:  
Friends, Ladies and Gentlemen:**

**Good afternoon!**

**It is with great pleasure and honor I receive his excellency Elias Castillo's invitation to speak to you here today. I treasure this opportunity of meeting my old and new friends here in the stately hall of the National Assembly of Panama to discuss the issues of our mutual interests and the prosperous future of our cooperation.**

**As the President and CEO, please allow me to first introduce the China Ocean Shipping Company – the COSCO Group to you.**

**COSCO Group was established on April 27, 1961. We just celebrated our 45<sup>th</sup> Anniversary last month. In the past 45 years, benefiting from the rapid growth of China economic, trade and international shipping, COSCO has grown from a carrier with four ocean-going vessels of merely 22.6 thousand dead weight tons into a diversified multinational group that specializes in ocean shipping, ship building and repairing, modern logistics and**

**transportation-related businesses. At present, COSCO Group owns and operates a modern fleet of about 650 merchant ships, with a total tonnage of over 38 million dead weight tons and with an annual shipping volume of over 300 million tons. COSCO's shipping services serve more than 1300 ports in 160 countries and regions, making us a leading global carrier and logistics service provider in the world. Our services have bridged international trade more efficiently, and brought the countries and peoples closer together.**

**Obviously, the Panama Canal has played a vital link in global supply chain services. The Canal has shortened 5500 nautical miles in connecting the two oceans. The improved service quality and efficiency also greatly contributed to the global trade community. Especially since 1999, when the management of Panama Canal returned to Panamanian control, it provided economic and social driving force to the further development of Panama, and it is recognized positively by the global shipping industry.**

**Since the beginning of the new century, changes have occurred in global economy, trade and technology in the pattern of regional and industrial adjustment. International trade and maritime are undergoing similar structural changes. One important feature is that Asia is rising in the world economy, trade and shipping. How will these changes impact the canal development? Will the Panama Canal face more opportunities, or challenges? In the capacity of member of Panama Canal International Advisory Board, and one of the largest Canal customers, please allow me to share my views on how Asian economic development impacts the expansion of the Canal.**

Nearly 5% of the total world trade in goods is carried through the Panama Canal. Of this 88% is between the United States and Asia, in which 38% accounted for China-related trade. Therefore, the economic growth in Asian countries and the increase in the volume of trade and seaborne cargo present growth opportunities for the Panama Canal. IMF estimates that in 2006 and 2007, Asian GDP growth will reach 6.9% and 6.6%; China's economy will grow by 9.5% and 9%; and India's economy will grow by 7.3% and 7% respectively.

According to the statistics done by the Ministry of Commerce of China, in 2005, Sino-U.S. trade volume has reached 211.63 billion U.S. dollars, an increase of 24.8%; even more rapidly developing is China's trade with Latin America, with a growth rate of 26.1% in 2005. China imports ore, coal, soybean, and other goods from Brazil and Argentina, and oil import from Venezuela is also growing. In the future, China will continue to maintain rapid economic growth. According to China's recently published "11<sup>th</sup> Five Year Economic and Social Development Plan", China will maintain an average annual economic growth rate at around 7.5% from 2006 to 2010. China's GDP will reach 3.2 trillion U.S. dollars. Import and export trade will reach 2.3 trillion U.S. dollars. Although there are some trade friction issues, the growth trend of the trade between China and the Americas will not change. According to the forecast, the annual growth rate of China's containers destined for the East Coast of United States will be 20%. With the rapid development of China's economy, the Panama Canal becomes more and more important as a vital link for Chinese import and export goods to and from the U.S. East Coast, the Caribbean, and the East Coast of South America.

However, it is undeniable that the canal is currently facing serious

challenges, and possibly it is at its most critical moment since its inception.

First, the growth of container volume has challenged the canal capacity. The recent years' rapid growth of international trade has drastically increased the volume of Canal transit. The present canal operation can not fully meet current shipping needs. At present, nearly 100 vessels per day are waiting for passage through the canal, and that situation seriously challenges Canal's capacity of 40 ships per day. For those vessels that are behind schedule, they may have to wait 3-4 days to pass.

Secondly, the increase of vessel size also presents challenges to the Canal management. When the Canal was designed in last century, the world's largest ship was only 10,000 tons. After nearly 100 years of development, the world's largest ship has now reached 300,000 tons. Moreover, the deployment of larger ships has become the current trend. Container ships with 10,000TEU capacity have been deployed in major trade lanes, which will bring capacity upgrade in all major shipping routes. With the increase of 300,000-ton bulk vessels, the trend for bulk carriers to increase its size becomes also apparent. The current percentage of PANAMAX ships is nearly 65% of the total ships transiting the canal. It is expected that large sized ships through the Canal will be growing. However, despite many renovation measures taken at the Canal, only 50% of the canal's daily passage capacity is for large PANAMAX vessels. If further measures are not taken, the number of big ships that can move through the canal will become smaller and smaller. Therefore, to maintain the competitiveness of the Canal, the canal capacity must be improved.

**To deal with such opportunities and challenges facing by the Canal, the Canal Board Advisory Committee held several discussion meetings, and announced a Canal Expansion Project with total investment of about 5.25 billion US dollars. As a member of the Advisory Board myself, and on behalf of COSCO, one of the largest Canal customers, I fully support this expansion plan. I believe that the expansion of the Canal will enable more ships to utilize Panama Canal. It will not only strengthen Panama financially by bringing considerable revenues, promote development of Panama maritime industry, and ensure Panama's position as the regional maritime center, but also will benefit the growth of regional and world economy and trade. A greater variety of new goods at larger volumes will be able to be shipped through the canal. The agricultural products from U.S. Gulf, Venezuela's oil, and ores from the East Coast of South America will have more convenient shipping path to Asia. Recognizing this, COSCO has chosen Panama as the transshipment center for the Caribbean, Central America and West and Northern regions of South America.**

**As a member of the Canal Advisory Board, I would like to emphasize that we must find the balance among the Canal development, shipping industry development and the world economic and trade development, so that the three are reinforcing rather than conflicting with each other. To accomplish this, I present the following three principles for your consideration:**

**1. The plan should be conducive to enhancing the competitiveness of the Canal.**

**While designing and operating the canal, we need to consider how to take full advantages of the growth opportunities in order to enhance the competitiveness of the Canal. We also need to consider how to**

**minimize the Canal's current limitations. By doing this, we then can successfully address the challenges of the volume growth and provide services to larger ships.**

**2. The plan should be conducive to the long-term development of regional and world economic and trade.**

**A properly scaled investment can stimulate regional and global economic growth, without placing heavy burden to the regional economy, and without hindering the development of global trade and shipping activities.**

**3. The plan should be conducive to relevant parties for future cooperation.**

**Canal development needs the support of old customers, as well as that of new customers. Therefore, we must give full consideration to the interest of all parties including the shipping circle, the trade circle and the engineering circle, to lay a solid groundwork for future cooperation. Relationship with large customers should be given priority.**

**As one of the largest users of the Canal, COSCO and our partners in Panama private and public sectors have maintained good and cooperative relations. COSCO first established representative office in Panama in 1986. In 1995, we formed COSCO Panama. In 1999, COSCO has become one of the largest users of the Panama Canal. In developing maritime relations between our two nations, COSCO has always actively played a positive and important role. At present, there are over 400 vessel voyages through the canal. Currently, we formed the shipping consortium with K-Line, Yang Ming Line, and Hanjin**

**Shipping and we operate four weekly liner services between the Far East and the East Coast of the United States, with a total of 32 PANAMAX container ships. The consortium has reached a consensus that will open the 5<sup>th</sup> service later this year. Besides that, we are now cooperating with Evergreen to sep up the CUE services between China mainland and the US Gulf area through Panama Canal. In addition, COSCO's bulk fleet and general cargo fleet often use the canal services.**

**COSCO's fleet does not only promote the trade between Asia and the Americas, but also will further our cooperation with the Panama Canal and with the great nation of Panama. We support the new Panama Canal expansion project. We are also interested in participating in some of the projects. COSCO will continue to strengthen cooperation with the local maritime peers, port and terminal operators, as well as the vast number of customers. We will further enhance our cooperation and win customer confidence with quality service.**

**Finally, I believe that a larger, more modern, more competitive, 21st century new canal will benefit the development of the Asian Pacific maritime industry and will further promote the global economic and trade development. And the continuous prosperity of global trade will ultimately create more return for the new canal. I sincerely wish the great success of the Panama Canal Expansion Project. And with the success, the new Panama Canal will make even greater contributions to the Panamanian people and to the mankind!**

**Thank You!**