

# **Tianjin as a Logistics and Development Finance Center**

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## **Fast Economic Development in Northeast Asia Is A Solid Foundation for Regional Cooperation.**

Northeast Asia area is an economic region with great potential and vigor. The tendency for economic growth remains strong. Since the 1980s, the developing speed of the economy of Northeast Asia has been obviously faster than the world's average speed. The GDP in 2002 was 6 trillion US dollars, accounting for 20% of that of the world. The economic development tendency of all countries of Northeast Asia is currently (in 2003-2004) very good.

In today's world, the trend of economic globalization is strengthened continually. Regional economic cooperation, the product of geography-based relationships is increasingly intensifying. The fast developing Northeast Asia area has become the place where international capital moves most actively. Every country in this area has its advantage in aspects of finance, technology, natural resources, human resources, market capacity, comprehensive economic strength, etc. The region also has great economic complementarities, which provides a solid foundation and broad space for further cooperation. China has high speed growing market potential and highly qualified, a low cost work force. It has become fourth biggest trading country in the world and absorbs the most foreign capital. Japan and South Korea have such advantages as technology, management and finance resources. Russia has the advantages of in both its economy and its resources and market potential. Mongolia and North Korea have requirements in exploiting resources and developing infrastructure. Enhancing dialogue, communication and cooperation brings benefits to all countries in this area.

The fast economic increase in Northeast Asia is promoting the rapid development of the region's logistics. In recent years, the construction of crossing border corridors in Northeast Asia has advanced. On the whole, the Northeast Asia transportation network has been built up significantly (although it is still lagging behind other regions). Japan must use sea transportation because it is an island country. All other Northeast Asian countries can be connected together by ground transportation. Currently, there are nine essential ground transportation routes. In addition, multinational companies operating in the region are deepening the demand for logistics. The fast development of port economies in Northeast Asia makes the increase of throughput of all main ports likely. Some ports such as Pusan, Tokyo, Yokohama, Tianjin, and Tsingdao are among the top 30 ports with largest container throughputs in the world. As the infrastructure of all these countries increases in scale and improves in function, logistics enterprises in Northeast Asia are sharing a bigger part of the international market. Some of these enterprises are among the ten leading shipping companies in the world, such as Hanjin Shipping, COSCO, Nippon Yusen.

## **A Shift in the World's Production Center Gives Prominence to Logistics**

Northeast Asia may have become the world's production center. As modern logistics technology develops quickly, the mode of production of manufacturing industry and the pattern of world trade are also changing. Regional production cooperation and international division of production becomes the leading global mode. Industrial production and decisions become global. New connecting links have appeared between different sectors and areas and logistics industry is just one of these links for global production. Northeast Asia area occupies a large share of the world market, so it is in an advantageous position in world competition: it has leading technology, innovation ability and core competitive power, so it can lead the trends in the world's technology. Its enterprises are strongly competitive because these enterprises are among the best in the world in terms of productivity, new product development, technology innovation and management.

Relying on its location advantage, large and high quality work force resource, and abundance (and increasing) manufacturing enterprises of famous brands, the Northeast Asia region is having a 'congregating effect,' attracting many multinational companies. Northeast Asia has become a desirable area for multinational companies to move into. Well-known multinational companies are continually shifting their production centers, research and development centers to this area. And, more and more, international capital and technology markets are also moving. This influx of large-scale enterprises comes with their great requirements for import and export of raw materials and manufactured goods. Furthermore, the manufacturing enterprises in industry zones near ports, which process materials supplied by clients, have great logistics requirements. Thus, as the world's manufacturing and production centers move, Northeast Asia will have a greater logistics need.

In the 21<sup>st</sup> century, manufacturing and production logistics are global logistics, which are necessary for forming a multi-element network in a highly competitive globalized market. If manufacturing companies want to keep the competitive edge in the market competition, they must meld the idea of modern logistics into all aspects of their enterprises. For instance, Dell Company is a successful case of applying logistics management and supply chain management. It breaks the traditional logistics system and creates a new logistics circulating system with zero oriented reaction time, small storage or no storage, short distance or zero distance clients, small operating capital, increasing sales value and profit. This system is uniform, healthy, rapid and innovates continuously. In this system, the idea of all round logistics is promoted, so high-level suppliers, middle links, sectors inside the enterprise and clients are considered as a whole. It also includes the coordination of finance flows and information flows, forming a supply chain different from traditional ones. This new supply chain is suitable for reacting quickly to the market and producing more types of goods in a small scale.

The successful experience of Dell Company is enlightening. The fields of competition among enterprises have changed from technology to logistics management and supply chain. The function of logistics has emerged: it can lower costs, raise productivity, increase profit after taxes, serve clients better and enhance competitiveness.

## **Models and Principles of Logistics Cooperation in Northeast Asia**

The evolution of the world economy and industry structure causes international logistics to change continually. Trade and investment between countries in Northeast Asia are increasing steadily and deepening. That powerfully pushes logistics trade between these countries to develop. At the same time it increases the requirements of each country's international logistics development and cooperation.

The logistics of the six countries of Northeast Asia exhibit great differences and diversity in market environment, infrastructure, level of management, competitiveness, etc. This diversity determines the difference in the value of international logistics cooperation. Different histories of logistics development as well as different domestic industry development levels means that there will be some divergence on essential issues such as how to conduct multinational service, the content of multinational service, the relationship between international logistics service and foreign trade and foreign investment. Therefore, cooperation models are multiple. They may be based on logistics hardware trade or software trade; strategic alliances between logistics enterprises or strategic alliances between logistics enterprises and enterprises in other industries; establishment of joint ventures or sole investor enterprises; or free-flow of advanced logistics managing personnel between countries or training logistics personnel for others.

Northeast Asia's international logistics cooperation is a challenge and also an opportunity. It has a strong driving power because the idea of a supply chain is now well embedded into people's minds, because information technology provides the practical means for its implementation, and because the Northeast Asia region has the advantage as a later comer in regional economic integration. The most urgent thing now to carry out Northeast Asia's regional logistics cooperation is to establish a framework and set the goals, principles, content and approach to cooperation. We should take measures quickly to improve and build transportation and communications infrastructure. We should loosen monetary control and transportation control—which represent logistics barriers—and increase market access and penetration and information availability. At the same time, it is very important to keep the region open while we improve Northeast Asian logistics cooperation. For example, cooperation should be pursued in harmony with an ASEAN and North America Free Trade Zone. It should not prevent APEC from functioning positively. By pursuing regional cooperation according to the principles of enterprise advance—from easy to difficult, step-by-step—seeking mutual benefits developing together, we will gradually promote international logistics cooperation in Northeast Asia.

## **Tianjin's Advantage in Developing Modern Logistics Service and Its Contribution to Northeast Asia**

Tianjin is the largest foreign trade port in the North of China, located in the westernmost end of the Bohai Sea Gulf (the central position on the coastline of the Bohai Sea). It is the closest gateway to the sea for most of North and Northwest China. It is also the Eastern terminus for the Asia-Europe land-bridge, so it has special location advantages. Tianjin is

also an important transportation hub where sea, land and aerial transportation come together. Tianjin houses one of the most important ports in the North of the country with an annual container throughput of 200 million tons. This port also includes a container logistics center and bulk cargo center. The Tianjin Binhai International Airport, is one the four major airfreight airports in the country. Moreover, Tianjin has four land bridge roads that can reach Europe. Among them, the railway from Tianjin to Erlianhaote has the shortest distance among railways from all harbors of China. In addition, Tianjin has easy access to Beijing, the center of the national railway and highway transportation that radiates to the hinterland. Therefore, Tianjin has the basic conditions to develop modern logistics services.

The government of Tianjin is constantly increasing investment in logistics. In recent years it has set out to build a modern logistics system, including:

- (i) Building an international logistics system using the seaport and airport as the core. In order to strengthen seaport construction, Tianjin plans to invest 3,500 million dollars from 2004 to 2010. It is estimated the throughput in the harbor of Tianjin will reach 300 million tons in 2010. Container throughput will reach 10 million standard containers. The Binhai International airport of Tianjin is the biggest aerial freight transportation center in Northern China. It has already entered into partnership with Beijing Capital International Airport and realized the integration of Beijing-Tianjin aviation. Tianjin airport international logistics processing district has already tentatively formed a logistics distributing center for international aviation with air to air or air to land transferring ability, which is the largest in our country and one of the most important in Northeast Asia.
- (ii) Accelerating Tianjin's e-commerce and modern logistics service information platform. We plan on constructing an information port that matches the status of an important economic center in the North and building up a highly efficient and swift communications system—a complete information network connecting with the world, and a developed information industry. By establishing an e-commerce and logistics service information platform, Tianjin has become China's northern information pivot.
- (iii) Strengthening efforts in inviting and attracting outside investment in logistics. On one hand, we have paid great attention to the entrance of a large number of logistics enterprises such as Motorola Asian area-distributing center. On the other hand, we fully make use of various kinds of international communicating activities and have sped up the pace of cooperation with external logistics fields. Recently, world-famous logistics enterprises have entered Tianjin at a steady pace.
- (iv) All related departments of the government cooperate and work together creating a good policy environment for developing logistics services. We have established medium-term and long-term plans and local regulations and policies for developing the logistics industry. We have strengthened organization and leadership abilities and logistics administrative skills and propagate successful experiences.

Tianjin's future development goal is to make Tianjin the pivot area from which the three northern areas of China can be served and by extension serve the whole country and Northeast Asia. Tianjin attaches great importance to Northeast Asia regional economic cooperation, regarding it as the focal point of the development strategy. Tianjin has good logistics infrastructure and high-quality logistics services, so it will certainly promote logistics cooperation in Northeast Asia.

### **Tianjin's Role in Advancing Logistics Cooperation in Northeast Asia**

Tianjin will play an important role in advancing logistics cooperation in Northeast Asia. Tianjin will become the largest free port quarter of Northern China (according to *the Replying letter from General Office of the State Council on agreeing to expand the free trade zone and on the pilot project of harbor-zone linking* (No. 58, 2004, from General Office of the State Council). Tianjin is one of the pilot cities where a free trade zone policy extends from the harbor area to nearby areas. This area of Tianjin will cover 1.5 sq. km. This so-called "*harbor-zone linking*," designates an area near the harbor and an already established free trade zone especially for developing industries such as logistics, storage (not including the dock berth) where a free trade zone policy applies. The result is a free logistics area that connected to a free trade zone and the harbor, thereby taking advantage of free trade policies and of location (at the harbor). The procedures are simplified further. The circulation of goods is accelerated. Port and shipping industries, storage and logistics industries are all promoted, driving the port and shipping industries to develop together

Tianjin harbor is one of the most important pivot harbors of China in terms of construction and as an arterial harbor for containers. As the biggest free trade area in Northern China, Tianjin harbor free trade zone enjoys a special policy whereby external goods are exempt from tariffs. The port and free trade zone are linked closely to each other. There is a special advantage in such aspects as location, function and policy. The business area will fully use the policy advantages of both a free trade zone and port location advantages; it will specialize in developing storage and logistics industries. Furthermore, the relevant policies for an export processing area will be implemented here. Namely domestic goods entering the business area will be treated as exports, so they will go through the procedures of customs declaration, and tax refunds will be implemented. The business area's goods sold into the country shall go through procedures of customs declaration, according to the relevant regulations on importing goods. Taxes will be imposed according to the real state of the goods. In the area, the goods circulate freely; value-added tax and consumption tax will not be levied.

The Tianjin free international logistics area will be built over some of the from the port area and some land from the existing free trade zone, close to Tianjin harbor's container dock berth. The management style will use the experience and method of foreign free trade areas for reference. It will combine the policy advantage of a free trade zone with the function of collecting and distributing port goods. Logistics transfer, storage, distribution, provision, delivery and transport will be integrated effectively, Functions such as international transshipment, international delivery and international purchase, are

highlighted to further promote trans-national business and international trade. By learning from the management experiences of foreign free trade zones, the harbor of Tianjin and its free international logistics business area is developing its 'free trade harbor' successfully.

Implementing linked development between port and free trade zone and combining the resources of the two is very important for strengthening the functions of an international harbor city and a northern economic center. Through this combination of resources which integrates an international logistics center and a shipping center oriented (radiating) to the three Northern areas of China and Northeast Asia will better serve northern China's economic development and the economic development of the Bohai Sea area and Northeast Asia as a whole.

### **Advancing Financing Cooperation in Northeast Asia**

At the Northeast Asian Economic Forum held in Tianjin in 1991, participants, including Mr. Ma Hong, proposed the establishment of the Northeast Asian Development Bank (NEADB). At the 9<sup>th</sup> Northeast Asia Economic Forum in 1999 (again held in Tianjin), the issue of regional cooperation in development finance was one of the main topics discussed. At this meeting, the main framework for establishing the NEADB was presented and Tianjin City proposed that the headquarters of the Bank could be located in Tianjin. A further working group meeting aimed at advancing preparations for the NEADB was held in Tianjin in 2000. In February 2004, at the annual meeting of Northeast Asian Economic Forum held in Niigata, Japan, I also put forward the suggestion of advancing regional financial cooperation and reiterating Tianjin's support for the NEADB.

The establishment of the NEADB could solve the funding shortages for economic development that Northeast Asia faces. According to authoritative estimates it is difficult to obtain the necessary financing through existing organizations. Therefore, we must open up a new financing channel. In addition cooperation in development finance is critical to regional economic cooperation in general—it is vital for the advancement of key energy and transportation regional projects. Moreover, the bank will improve the capacity of the member countries to gain a regional perspective that can be weighed against national views or views based strictly on bilateral cooperation thereby highlighting the advantages of regional cooperation and regional projects. Last year, the leaders China, Japan and South Korea signed a cooperative joint declaration proposing "deepening future regional financial cooperation, including examining and setting up stable regional financing mechanisms." The establishment of the Northeast Asian Development Bank serves such a purpose. Until the Northeast Asian Development Bank is established we should continue to explore the means for regional financial cooperation, this may include establishing a regional commercial bank for Northeast Asia first and then waiting for the right opportunity to set up the Northeast Asian Development Bank.

Regarding the Northeast Asian Development bank, the Chinese Government and the municipal government of Tianjin have been following the research and discussions on this issue very closely and have been very supportive of the proposal for its

establishment. Mr. Jiang Zhenghua, Vice Chairman of the Chinese Standing Committee of the National People's Congress, and every member of the Chinese delegation have a great deal of work in order to advance the establishment of the NEADB. Mr. Dai Xianglong, Mayor of Tianjin, former president of the People's Bank of China, reported to state councillor, Mr. Tang Jiaxuan recently. Mr. Tang Jiaxuan said that the Chinese Ministry of Foreign Affairs would support the idea. Mr. Zhang Lichang and Mr. Dai Xianglong, leaders of Tianjin, and other concerned parties of Tianjin are working to achieve the goal of the NEADB. We are confident that through the joint efforts of each country, the NEADB will be established successfully.

Establishing a regional international financial organization is a complicated inter-governmental process, not only involving finance and economic development issues but also involving politics and diplomacy. Joint efforts are needed to encourage the central governments of the various countries that stand to benefit to carry out serious dialogue and consultation on cooperation in development finance and the NEADB. Under the principle of seeking common ground while respecting diversity, we should make joint efforts to advance the preparatory work for establishing the Northeast Asian Development Bank.