

# Fostering trade and development through port business hubs

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With African Ports Evolution currently underway in Durban, we spoke to Aruna Bunwaree-Ramsaha, deputy director general, Mauritius Ports Authority, about the development of business hubs close to ports and what these hubs mean for trade and economic development.



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## ■ ***How do the needs of regions influence the development of business hubs close to ports? What are the key factors to consider in these developments?***

The significant growth of international trade over the past decades has been both a principal cause and effect of globalisation. Trade globalisation and development of large trade areas have led to shipping and intermodal transportation systems to handle the global nature of the supply chain. The role of ports has accordingly changed tremendously and ports are now called upon to play more an economic role.

Previously ports were primarily viewed as an interface for cargo exchanges between land and sea transport. Nowadays modern ports are viewed more as a dynamic node in the international production/distribution network. Therefore, port management has switched from the passive role of mere provider of facilities and services to that of an active actor in the overall international trade process.

These efforts are accordingly directed towards promoting trade and transport activities which in turn generate new revenue making and value adding processes. As a result, ports are being transformed into integrated transport centres and logistics platforms for international trade.

The key factors to be considered for development of business hubs involved in global manufacturing next to ports are:

- Comparative identification of low-cost production centres;
- Selection of low-cost production centres based on availability of cost-efficient and reliable logistics services;
- Selection of regional or national logistics platforms to optimise fleet deployment/utilisation while maximising carrying capacity utilisation rate by serving both international and local markets.

### ▣ ***What are the main benefits of developing businesses and hubs close to ports?***

In addition to bringing businesses closer to global logistics networks and hence to the main urban areas surrounding the ports, these business hubs stand to benefit from economies of agglomeration. Economies of agglomeration, in a nutshell, are the benefits that firms obtain by locating near each other. When these businesses cluster together near a port, their costs of production may decrease through the greater availability and quality of factors of production such as skills, access to transport systems as well as the efficiency with which these factors are deployed.

In this particular case, these business hubs which have set up close to ports whilst enjoying enhanced factors of production may also witness a cutting down in their inland transportation costs, benefit from timely receipt of raw materials and timely despatch of finished products, benefit from potentially lower freight rates in the receipt of raw materials/despatch of finished products due to increased ship connectivity as a result of the boost in economic activity in the region.

Additionally, developing business hubs close to port cities enable firms to avail themselves of those benefits that also stimulate innovation and knowledge sharing across the national economic community.

### ▣ ***What opportunities do Free trade zones offer?***

Free Trade Zones also known as Special Economic Zones (SEZs) are typically labour-intensive manufacturing hubs involving imports of raw materials and components, handling and processing of same and the production of goods that are exported free of local taxes to foreign markets. These Free Trade Zones are normally located around seaports and airports i.e. with an access to international trade lanes.

The objective of setting up a Free Trade Zone is to develop the local economy by providing job opportunities and establishing value-added activities in an area close to the port/airport. By having a Free Trade Zone near a port there will be opportunities for job creation and production and also increased business opportunities for shipping lines calling at the port.

The traffic from the sourcing countries for raw materials and to the destination countries for finished products will undoubtedly attract more shipping lines to the port, thereby improving the ship connectivity of the country as a whole. An increase in shipping services, on the other hand, may lead to an increase in competition for traffic which in turn may exercise a downward pressure on freight rates to the benefit of shippers, consumers and the economy at large.

Increased traffic transiting from the port may also lead to port operators proceeding with an upgrading of the port infrastructure and superstructure which will enhance the overall port services level which will represent an advantage to port users. Moreover, these Free Trade Zones also attract foreign direct investment to the benefit of the country as a whole.

### ▣ ***How have exporters and traders and their day to day operations been affected by the development of these hubs?***

As evoked above, business hubs located close to ports benefit from a number of advantages linked to enhanced availability and quality of factors of production, greater accessibility to markets, potentially decreased transportation costs including

freight rates.

On the other hand, the downside of this proximity could be in the form of traffic congestion especially in terms of waiting time if the port services are not effective and also if no proper road network exist linking the SEZs to the port. Various forms of pollution and other negative externalities caused by the clustering of industries and population may also lead to diseconomies of scale. A dearth of skilled labour may similarly affect these business hubs and lead to agglomeration diseconomies.

### **▣ How have or will business hubs contribute to the development of the ports in their vicinity?**

By generating and increasing port traffic, business hubs provide the economic rationale to plan for the development of new terminal facilities. Actually, it is quite popular for ports to develop near manufacturing areas or imports/exports hubs and this is quite visible in China. This allows these ports to secure traffic from nearby industries, ensuring by the same token regular vessels' calls and sustainable revenue streams.

By doing so, ports retain their customers whilst increasing business opportunities for shipping lines using the terminals. There are also cases where businesses are actually interested in investing directly into ports assets through public-private partnerships arrangements with port authorities. This is quite common for industrial activities such as oil and mining.

### **▣ What is the main message that you would like to leave industry stakeholders, governments and delegates at Africa Ports Evolution with?**

Customer centricity is undeniably the model that will back modern and high performing ports nowadays. At the end of the day, the customer should sit firmly at the centre of business models of port operators in order to ensure sustainable traffic flow from nearby industries and that, in turn, will promote regular ships' calls and guarantee constant revenue streams.

To this effect, modern and efficient ports have become essential tools for facilitating and fostering trade and development especially in the context of globalisation of trade. The transport chain is fully integrated within the production system and, as far as international trade is concerned, within the trading pattern itself. In this context, ports have a clear facilitation mission which is vital for trade integration and for assisting value-adding activities to settle in port areas. Nowadays ports must offer efficient and reliable services to ships and cargo to allow the timely flow of goods through the transport chain which has in fact become a production chain.

An efficient transport system is a pre-requisite to attract foreign direct investment in business hubs settled around ports, in particular. Therefore, ports can play a crucial role in developing a competitive advantage for a country and accordingly governments and port authorities need to evolve appropriate port policies in order to reap this potential benefit.

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