

China eyes Panama Canal expansion

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Tight squeeze: China will be the the ultimate winner from the expansion of the Panama Canal.
Source: Bloomberg

TODAY a team of local workmen in Panama will start to dig a hole part-funded by Japan, aided by Latin American cash and big enough to hold the world's biggest Danish-owned, South Korean-built megaships.

The ultimate winner, though, will be China.

The work, which coincides with the start of Panama's dry season, is the latest phase in a \$US5.25 billion (\$6.03bn) project to widen the country's famous canal -- an expansion plan that could comprehensively reshape the flow of world trade and could even scupper Warren Buffett's \$US34bn "all-in" bet on American railways.

Work on deepening the Panama Canal begins amid more evidence of China's roaring recovery from the global slump. Over the weekend, the closely watched Centre for Forecasting Science at the Chinese Academy of Sciences predicted that the country would return to double-digit rates of GDP growth this year.

More critically for world trade, imports and exports are expected to grow by 19 per cent and 17 per cent, respectively. These are precisely the sort of figures that have given new momentum to the Panama project -- mooted a decade ago when Panama took possession of the canal from the US. The aim is to increase vastly the canal's capacity, in terms of both size and number of vessels. By doing so, shipping industry veterans say, it will re-establish the global importance of the isthmus.

The idea for an expansion began before China's economic growth had truly begun to boom. The plans were drawn up in expectation of steady growth in Japanese exports to the US and a rising tide of raw materials heading across the Pacific from Brazil.

It is clear, however, that the widened canal, as both an import and export route, will become a prime conduit for Chinese-driven global trade. One effect will be to make transport costs of finished goods from China to the East Coast of America much cheaper -- perhaps by 30 per cent, according to the canal's operating company.

When the work is finished, the canal will be navigable by tankers with capacity of a million barrels of crude oil. That, in turn, will open new routes whereby oil and mineral resources from West Africa can be taken directly to China -- deepening political bonds that Beijing has carefully fostered in that region.

The same dynamic could also bolster China's influence in the Caribbean, expected to develop as a storage hub for oil before it heads west through the canal and on to China. Economists at Goldman Sachs believe that the new canal could play a pivotal role in its Bric (Brazil, Russia, India, China) investment story -- as a channel more directly linking the Chinese and Brazilian markets.

By the time that the expansion work is finished in 2014, the canal will be able to take ships capable of holding 12,600 containers -- more than double the capacity of the "Panamax" ships that represent the canal's present size limit.

Moreover, the new canal will also be large enough for the gas industry's existing fleet of liquefied natural gas carriers, most of which are too big to make the Panama crossing and are forced to take the longer, more hazardous route around Cape Horn.

The reshaping effects have already begun. At the moment, the largest container ships leaving Asia for the US dock in one of the big West Coast ports, with Los Angeles the largest of those. Their journey is completed by freight train, much of it run by the Burlington Northern rail company, in which Mr Buffett has invested so lavishly.

However, anticipation of the wider Panama canal has shifted the focus: the combination of West Coast and rail may be quicker, but with potential cost savings of \$US1000 per container, the sea route may prevail as China's favourite.

Ports in New York and nearby New Jersey have begun work to increase capacity and deepen their channels to accommodate even larger ships. Big retailers, such as Wal-Mart and Home Depot -- voracious importers of Chinese goods -- are building hundreds of thousands of square metres of new storage space around the ports of Houston, Texas.