Port Sophistication and Country Economic Status: Seaports as Indicators of Economic Development†

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Introduction

Historically, seaports (hereinafter “ports”) have been critical to a country’s economic development and serve as a central and necessary component in facilitating trade. At the same time, the level of sophistication of port operations, infrastructure, and abilities must be congruent with the level of the country’s economy it serves. Ports have undergone important processes of evolution. The function of ports has traditionally been related to some aspect of inland growth and economic progress. Changes in trade flows and mix, whether imports or exports, set the framework for port infrastructure. Each individual product has different logistics characteristics, which in turn has an impact

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on infrastructural level. Thus, trade of certain tangible goods can provide the catalyst for increased port development. Trade mix is defined as the structure of merchandise trade in categories such as agriculture products, raw materials (including mining), oil and gas, and manufactured products. The higher the level of manufactured goods traded in a country, the higher the trade-mix sophistication and the higher the level of economic development.

Significant discrepancies between port development and a country’s economic development could result in a port’s infrastructure being over or under built. The concept of “we will build it, and they will come” has left some countries with expensive sub-utilized or unutilized infrastructure. Therefore, all port stakeholders such as port infrastructure managers, policy-makers, and bank managers financing port expansion have an interest in what drives changes in trade. Their need for tools to review investment strategies is acute. There has been a saturation of academic literature focusing on port performance in terms of efficiency (e.g., container-terminal efficiency and efficient ports or benchmarking productivity). Economists have extended analyses for measuring port effectiveness such as market effectiveness and in the context of “leaness.” It appears, though, that measurement of performance in ports has focused on internal system performance, primarily financial, and on the provision of vessel-handling and cargo-handling capacity as a proxy for the assessment of internal functional activities. We have found no studies

6 Id.