

BOJAN BEŠKOVNIK, B. Eng.
E-mail: bbeskovnik@email.si
Intereuropa d. d., Interagent d. o. o.
Vojkovo Nabrežje 30, 6000 Koper, Republic of Slovenia

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CHINESE ECONOMY IN RELATION TO THE WORLD SHIPPING INDUSTRY

ABSTRACT

This article presents the influence of the Chinese economy on the World shipping industry. Changes in international economy and shipping market have pushed shipping industry to change the market strategy. The Chinese trade growth has come to a point at which any change of the Chinese demand will have an immediate influence on the shipping market (container, dry bulk and tanker). Because of the rising demand of the transport of manufactured goods, cooperation between carriers will be further developed, in order to satisfy the customer's requirements. In addition, shipping companies must change to global logistic providers.

KEY WORDS

Chinese economy, world shipping industry, globalization of market, container transport

1. INTRODUCTION

The Chinese economy has grown very fast in the last two decades. This is an achievement unparalleled in human history, both qualitatively, in terms of the sustained rate of growth of gross domestic product of a nation over a long period, and quantitatively, in terms of the numbers of people affected. Never in human history have so many people become so much better off, so quickly. The economic management of the Chinese economy is really pretty good. The strengthened capacity of China's manufacturing industry is a result of World economy and economic globalization.

Changes in international economy and shipping market have pushed shipping corporations onto the road of scale operation, whereby large-tonnage vessels are much sought for, and external expansions, such as mergers and alliances co-exist with internal upgrading such as customer-oriented marketing strategy and improvement of sales network. Chinese trade growth has come to a point at which any change of Chinese demand will have an immediate influence on the shipping market. Because of the rising demand of

transport of manufactured goods from China to Europe or North America, the cost of moving a 20 feet container has jumped from around US dollars 600-800 a year and a half ago, to around US dollars 1,200-1,500. In other words, globalization and growth of the Chinese economy influenced the World shipping industry.

2. CHINA FACTOR IN RELATION TO SHIPPING

The strengthened capacity of China's manufacturing industry is a result of economic globalization. It is also a result of the development of multinational companies. Globalization is an inevitable trend of modern economic development. It enabled entrepreneurial production everywhere by taking advantage of the area natural resources, capital, technology, information, management and labour, and the selling of products where there were demands for them. China had extensive low-cost and high-quality labour resources, which have become a major attraction for multinational companies.

Presently, about 80 per cent of the world's top 500 companies have invested in China. By the end of December 2003, China became the second largest destination for FDI, after the United States. As a result, investment by foreign and domestic private companies has increased. Manufacturing industries such as automobiles, home appliances and steel have expanded rapidly. Companies have compared the Chinese market with markets in other areas, and found the Chinese market more attractive. In fact, the developed countries have already enjoyed the benefits of the economic globalization. The developed countries, which monopolized advantages of capital, technology and information, have secured huge profits through international exchanges of products, technology, capital, labour and information.

After witnessing a consecutive strong growth in 1990s, especially after China joining WTO in the late 2001, the country's foreign trade continues to grow at

a surprisingly high rate of over 30 percent on an already big enough base figure for the last two years. China's GDP has maintained an average annual growth rate of 9.4 percent for the past 25 years. Chinese aggregate economy ranks 6th in the world and China's foreign trade reached a record in 2003, ranking the fourth in the world. Back to three years ago, China was ranked the seventh in the trading countries' list. After the consecutive strong growth of years, China takes account for around 5 percent of World trade value.

China played a critical role in the historical boom of shipping market starting from the second half of 2002. The secret is in trade volume. With the global economic technology developing quickly, the knowledge contained in merchandise and the value added is increasing apparently. In the long-term the volume of the international trade will continue growing steadily as a result of globalization, the freight rate will be increased, and the quality of transportation required as well. In the meantime the price of the raw commodity in the international trade will be decreasing. The shipping companies should watch out for the changes in the shipment structure in the international trade, to adjust their transportation structure on time, in order to improve the method of transportation, and to obtain much higher freight rate.

With the development of international economy and trade, more and more trans-national companies require shipping companies to provide the global transport services. After the bulk carrier specialization and containerization, the international shipping is entering an era of modern logistics. In the 21 century the new transport means will turn so many isolated transport methods into a whole system. In the future one shipping company should operate every method of the transportation. The carrier will not only transport the commodities from port to port, but also from door to door, from point to point. Actually, many large shipping groups have already made the modern logistics as their strategy. For instance, Maersk-Sealand has announced that logistics will be their important business in the future. OOCL has planned to turn into a whole logistics provider in next years. The same is valid also for other big container carriers, like MSC Geneva, CMA-CGM. With the expansion of the value chain, those shipping companies who have developed the logistics services are lifting the competition platform from low level price-competition to the total logistics services value-competition. The shipping companies are facing more and more the pressure from lowering their cost and improving their services.

Currently the global shipping has already turned into the buyer's request. With the development of the shipping industry, the buyer's requests are increasing and the competition in shipping industry is getting

heated. The shippers will require from the carriers more and more specialized services, such as providing express services and calling fewer ports. On the other hand, the carriers will provide more and better services to satisfy the shippers' specialized service requirements. In order to provide the specialized services, and accomplish their own scale-economy as well, some shipping companies are ready to provide new and better services, which can satisfy both sides. To provide the service, the ships are getting larger and at the same time the ship speed is increasing. At the moment, the designed speeds of post-Panamax containerships are between 25-27 knots. According to some reports, many shipyards and shipping companies are designing ships with capacities of 8,000-12,000 TEU, and the speed is up to 30 knots. It is also planned to develop a 38 knots speed container ship in the transatlantic service.

Trends of cooperation will be further developed from slot chartering to setting up alliance. There have been dozens of major mergers in international shipping industry in the recent years, such as P&O and NEDLLOYD in September 1996, NYK and SHOWA in June 1998, MOL and NAVIX in April 1999. Some major acquisitions happened such as APL by NOL in April 1997, and Sealand by Maersk in July 1999. Some big carriers also purchased some smaller carriers, operating only in a specific trade. For example, Compania Sud Americana de Vapores purchased Montemar and Libra in the year 1999 and also Norasia container lines in the year 2000.

3. STRUCTURAL CHANGE OF WORLD SHIPPING INDUSTRY

The World shipping industry has been undergoing a structural change over the last decade and the changed map has never been clearer than nowadays. The feature of the change is that Asia, notably East Asia, has overwhelmingly become the powerhouse of world shipping business as the largest importer of raw materials and the largest exporter of manufactured goods. Though Asia GDP figure is smaller than the US and European Union, and if excluding Japan the region's economic scale is much smaller, this region has consumed more raw materials and produced more manufactured products than either of them. Asia imported about 15 million barrels of crude oil per day in 2003, accounting for 43% of world oil trade. As for the three major dry bulk cargoes iron ore, coal and grain, Asia imported over 1.3 billion tons, 57 percent of the world trade of these goods. In terms of container trade, Asia's port throughputs were around 152 million TEU in 2003, 52 percent of the world total. Asia

has taken the leading position in all the major shipping categories.

Along with the surging demand of Asia is the shift of shipping services and related industries from the West to the East. Nowadays, according to Lloyd's Register, Asian and Oceania ship-owners controlled 43 percent of world merchant fleet in 2003. Obviously they operated more capacity, as a large number of their fleet is chartered in vessels. Over 80 percent of ships are built in the three major shipbuilding countries Korea, Japan and China. Over half of the ships are crewed with Indians and other Asian seamen. Other shipping related industries such as shipping finance, legal service, insurance, are increasingly moving to Asian shipping centres like Hong Kong, Singapore and Shanghai.

3.1. Container, dry bulk and tanker shipping

The ports of mainland China handled 48 million TEU in 2003, a net growth of 11 million TEU from the previous year. Last year was not an unusual year in terms of the growth rate, as the rate of 30 percent was right at the average level of the past decade. But it made the Mainland China become the largest container shipping market for the first time. In addition, both Shanghai and Shenzhen joined the mega-port league of over 10 million TEU throughputs. Shenzhen already had overtaken Kaohsiung in Taiwan to become the world's fifth-largest container port. The Chinese city of Shanghai, which last year overtook Kaohsiung as the world's fourth-largest port (after Hong Kong, Singapore and South Korea's Pusan), saw the traffic rise by an almost-as-impressive more than 35 percent. Chinese container ports become very important World container ports (in the first 10 there are three Chinese ports). According to Shippers Today published by the Hong Kong Shippers Council, the ports in Shanghai handled a throughput of close to 8 million TEU in the period from January to July 2004, a rise of 29 percent. The ports in Shenzhen came a close second with a throughput of 7.2 million, an increase of 31 percent. Other major ports in China include Qingdao, Ningbo, Tianjin, Guangzhou, Xiamen and Dalian, whose throughput range is from 1.2 million TEU to 2.9 Million TEU. Thus in the first half of this year (2004), the container throughputs in container ports in Mainland China hit more than 25 million TEU, an increase of more than 25 percent yearly. China had a forecast last year that the country's container port throughputs would reach 100 million TEU by 2007. With this growth rate seen in the first half of this year (2004), it is a reasonable prediction. Plus those handled in Hong Kong, with annual traffic of over 20 million TEU, China accounted for nearly one fourth of world total container throughputs of 280 million TEU.

However, half of the containers flowing into China are empty and nearly all of the containers leaving China are loaded with goods, China's share in the world container export is obviously higher than this percentage, probably up to one third of the world total. As a result, on the two most important container trades from Asia to North America and to Europe, China and Hong Kong take account of over 60 percent and 50 percent of market share respectively. No wonder a larger number of liner companies' service lanes start from the Chinese ports and the Chinese market contributed to the major part of most liner companies' growth over the last few years.

The other side of the coin is that, the industry's reliance on Chinese trade growth has come to a point at which any change of Chinese demand will have an immediate influence on the shipping market. It is quite obvious that the freight market usually calms down during the three important Chinese holidays. Now shipping industries not only talk about Easter and Christmas, but also the Chinese Spring Festival, International Labour Day (May 1st) and Chinese National Day (October 1st). In these periods all carriers meet with lower quantities of full containers. Demand on container transport rapidly increases immediately after the mentioned holidays. In such cases some container carriers are forced to apply special surcharges (for instance: peak season surcharge).

Because of the rising demand for capacity, the cost of moving a 40 feet box container from Asia to markets in the West has jumped from around US dollars 1,000 a year and a half ago to nearly double or even triple the value today. Rates for chartering container ships have also shot up. Indeed, demand for cargo space is so strong that container lines can barely keep up. The reason is mainly in the rapid growth in China's foreign trade. Very high demand of container transportation forced container carriers to order new bigger container vessels with capacity of more than 8,500 TEU. It has also changed the policy of hub ports. New trends in container shipping leading to the use of only four to five hub ports on the way from Far East ports to North America and Europe. New container vessels with capacity of more than 10,000 TEU should operate on this trade. Smaller container vessels with capacity of about 4,000–5,000 TEU would connect hub ports with smaller ports.

It is even more obvious in the dry bulk business that China has brought in a structural change to shipping world. Actually, China has contributed 50 percent of the world dry cargo shipping net demand increase since 1999. China consumed 260 million tons of steel in 2003, increasing by 30 percent from the previous year and accounting for 27 percent of world production. China's import of iron ore was 145 million tons, a net increase of 33 million tons. Soybean is an-

other important bulk cargo imported into China. Last year China imported over 20 million tons soybean, accounting for about half of world soybean shipment. This also represents a 90 percent increase from the previous year's import.

The robust economic growth forced China's crude oil imports to increase 31 percent to a record level in 2003. China imported 91 million tons of crude oil in 2003, or about 1.87 million barrels per day, up from 69 million tons a year earlier. China's oil demand would slightly overtake Japan as the second largest oil consumer in the world. Of course, this is still far behind the amount of over 20 million barrels per day consumed in the US. In light of the fast growth of import demand, the Chinese government is seriously considering to build up a strategic oil reserve.

In the first half of this year, China imported about 60 million tons of crude, increasing by 59 percent. Together with strong demand from other nations such as the US, India and Korea, the tanker freight rates remained firm throughout the period from late last year. Along with the huge increase of demand in container, bulk and oil shipping, China must invest in port and logistics infrastructure and services. A wave of investments in ports is quickly developing, and the big names of both domestic and international logistics companies are expanding their businesses in China substantially. To some extent, the China effect is felt across the world as the domestic economic policy changes are reflected in the stock markets in some big World cities (Hong Kong, Singapore, Tokyo and New York).

3.2. Chinese shipbuilding industry

China's shipbuilding sector built an estimated six million dead weight tons (DWT) of ships in 2003, a record high and up 46 percent year-on-year. The new ships, built by Chinese shipyards accounted for 18 percent of the World's total in terms of tonnage. The overall tonnage for orders the country's shipbuilding sector has yet to deliver stands at 25 million tons, an increase of 93 percent.

China's shipbuilding sector would have to work at full capacity until the end of 2006 to deliver the ships, ordered by its domestic and overseas clients. In other words, shipbuilding sector does not have to worry about lack of work in the coming three years. The China State Shipbuilding Corporation (CSSC) built 2.17 million tons (ships) in 2003, twice as much as in the previous year. The China Shipbuilding Industry Corporation, another of the country's shipbuilding giants, reported construction of 1.65 million tons of ships. The shipyard has orders for seven million tons of new vessels. These increased orders pushed CSSC to begin with the construction on the Changxing Ship-

building Base on the Shanghai coast in 2003, which will be the largest shipyard of its kind in the world after the project is completed in 2015. The base was built on Changxing Island with a water frontage of eight km. Its annual shipbuilding capacity would reach eight million tons when it is completed in 2015.

4. FUTURE DEVELOPMENT OF CHINA FACTOR IN WORLD SHIPPING INDUSTRY

Just two or three years ago, people were debating if China would become a world factory. Nowadays, nobody doubts the fact that China has become the primary world factory, taking the advantages of its cheap and productive labour force and huge domestic market. This is reflected in the container trade volume going out of China. As mentioned before, China may have provided one third of goods transported in container, which is the most important mode of international transportation for manufactured products in the World. Looking into the future, maybe this growth trend should change its direction. Actually, the Chinese economy has stepped into a new phase of long-term steady growth in 2003, after years of taking positive fiscal policy and other stimulating policy measures.

In fact, the basic factors supporting China's long-term growth have been enhanced in the last few years. Firstly, China's joining WTO gives both Chinese companies access to the world market and foreign companies access to the Chinese market. Though there are some abuses of anti-dumping clauses against Chinese companies by other nations, now it only affects a minor part of Chinese exports. On the other hand, the confidence of foreign companies in China has increased. This will further strengthen China's production industry. Secondly, the recent economic reform policies have pushed the state-owned enterprises reform a big step forward and give the private sector a full wing to develop. Manufacturing productivity in China is nearly one fifth higher than that of the leading European countries and almost as high as in the US. In other words, the Chinese manufacturers were more adept than many had thought in taking on advanced management techniques.

The endless source of Chinese human capital provides a strong backlog for long-term growth of Chinese economy. In the next ten to twenty years, hundreds of millions of people will migrate from the countryside to the urban areas and become workers in the plants. In addition, the Chinese are putting tremendous emphasis on education (graduating more engineers a year, compared with the US). Thus, China is going to have lots of talents and lots of capital to put to

productive uses. This growth should continue for at least the next ten years. In addition to the above basic factors, China's entry into a heavy-industry period, the ongoing historic movement of urbanization, and the coming 2008 Olympic Game in Beijing, are all creating huge demand for the economy.

5. CONCLUSION

The Chinese economy is growing very fast. China will need to import more energy and raw materials like crude oil and iron ore, though a much more efficient use of them is very necessary, and will export more manufactured goods to the rest of the World. The number of cars sold in China reached 2 million in 2003, an annual increase of over 90 percent. A forecast of further increase will consume more steel and oil. These are just a few examples of the potential demand increase for dry bulk and tanker shipping needs. China's export will be based exclusively on manufactured goods. Export in containers will grow even more. China has become the largest container shipping market and ports of Shenzhen and Shanghai have become one of the largest container ports in the World. Shipping industry will continue to benefit from this continuous strong growth in China. The current boom will continue in the next years. In the future one shipping company will operate as logistic provider, in order to transport the commodities from door to door or from point to point. The buyer's requests will be achieved only with closer cooperation between producers, carriers and buyers. Some carriers already have forged a series of strategic partnerships with their major customers in the recent years, with an aim to reduce the uncertainty of the market between China and West countries. Trends of cooperation will be further developed also between container carriers, in order to cover the high demand of export from China. All the mentioned facts confirm that China has become a key factor in the World shipping industry.

BOJAN BEŠKOVNIK, B. Eng.

E-mail: bbeskovnik@email.si

Intereuropa d. d., Interagent d. o. o.

Vojkovo Nabrežje 30, 6000 Koper, Republika Slovenija

KITAJSKO GOSPODARSTVO V POVEZAVI S SVETOVNO POMORSKO INDUSTRIJO

POVZETEK

Članek opisuje vpliv Kitajske in njenega gospodarstva na svetovno pomorsko industrijo. Spremembe v svetovnem gospodarstvu in pomorskem trgu so prisilile celotno pomorsko industrijo k spremembi marketinškega pristopa. Rast kitajskega gospodarstva je dosegla stopnjo pri kateri se vsaka sprememba povpraševanja po prevozu nemudoma odraža na pomorskem tržišču (kontejnerski prevoz, prevoz razsutega tovora in tankerski prevozi). Sodelovanje med ladijskimi prevozniki se bo še dodatno razvilo zaradi vse večjega povpraševanja po prevozu končnih izdelkov. Pomorski prevozniki se bodo morali preleviti v ponudnike celotne logistične storitve.

KLJUČNE BESEDE

kitajsko gospodarstvo, svetovna pomorska industrija, globalizacija trga, kontejnerski transport

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