

**Nurturing and Developing Large Enterprises with
International Competitiveness:
COSCO's Implementation and Exploitation**

Capt. Wei Jiafu, President & CEO of COSCO Group

**Mr. Chairman, Distinguished Guests,
Ladies and gentlemen,
Good morning!**

Today, my topic is nurturing and developing large enterprises with international competitiveness. I hope to share with you the experiences we gained over the past years.

Large enterprises with international competitiveness are usually basis of a country's comprehensive strength. With the trend of economic globalization, the competition between different countries has more or less evolved into competition between large enterprises of different countries. In other words, a country or a region's economic strength and international competitiveness will be mainly reflected by its large enterprises.

International economic status of the United States, European Union and Japan are supported by a significant number of corporations with international competitiveness. This can be affirmed by the distribution of Fortune Global 500. In recent years, these top 500 corporations come from 20 to 30 countries. Companies from the US and Japan have

amounted to 50% of the total; this figure will reach 70% plus enterprises from UK, Germany and France, and 80% plus enterprises from Canada and other European countries.

If we pay attention to those large enterprises with international competitiveness in the world, we will find most of them share the following characters: highly innovative capability, advantage on core business, ownership of established brands with autonomous intellectual property; strong marketing promotions, a full coverage of marketing network and a continued market share; strong managerial capabilities, with talented human resources and modern managerial techniques adapted to international operations, plus good corporate governance and high social responsibility; key economic index such as working productivity and return of net asset reach a high level in the international market; a good economic scale benefit with sustainable profitability and risk-defending capability. With the development of economic globalization, social informatization and an improved world economic structure, China has now entered the post-transitional period of WTO accession, and will start to implement the 11th five-year plan. In order to better participate the international competition and speed up a well off society construction, China needs to rapidly nurture and develop a group of large enterprises with these international competitiveness.

COSCO is China's number one and the second-largest group of shipping companies worldwide. Our global network covers five continents and our ships are sailing to more than 1300 ports in 160 countries. With branch offices established in more than 50 countries and regions, nine regional headquarters have emerged in Hong Kong, Europe, America, Singapore, Japan, Australia, Korea, Africa and West Asia. Currently, our overseas

assets have amounted to 50% of our total assets. We have four companies listed at overseas stock exchanges, two of them are blue-chip shares. Of the total 5,000 employees working overseas, Chinese nationals account for only 10%.

COSCO was a small shipping company with only 4 ships and a deadweight of 22,600 tons 40 years ago. Today, COSCO has become the 2nd largest shipping company in the world with more than 600 ships and a deadweight tonnage of 36 million. The strategy of internationalization aimed to nurture and develop international competitiveness has played a key role. Five features can be summarized in this process.

I. A Transformation from Assets-Owning Operation to Assets-Managing Operation

China's guidelines for state-owned enterprises reforms have experienced a change from the growth of individual state-owned enterprise to the growth of the entire state-owned economy. However, the essence of this change is the transformation from managing state-owned enterprises to operating state-owned assets and from owning state-owned assets operation to controlling state-owned assets operation.

Basically, there are three options that allow SOEs to control and expand assets operation. First, the operation can get expanded through listings on the stock market or forming joint ventures. Second, it can also be realized through issuing commercial papers, enterprise bonds, or conducting assets securitization. Third, other methods such as lease operation and brand operation can also be utilized. During the process of the internationalization, COSCO have fully utilized the above methods and made great progress in administration and expansion of state-owned

assets.

1. Financing through Stock Market: Overseas Listing

Since capital intensiveness and long-awaited return are natures of shipping business, COSCO has made successful explorations in fund raising at international capital markets, expanding the core business and enhancing the competitiveness. So far, we have held controlling shares, or majority shares in eight listed companies worldwide. COSCO Corporation Singapore is the first foreign listed company that COSCO acquired at the stock market. On 1 March 2004, this company became one of the index constituent stocks by the Strait Times of Singapore and also the first one of its kind owned by Chinese state-owned enterprise. Further, COSCO Pacific was included into the Hang Seng Index constituent stock on 9 June 2003 and successfully became a blue-chip share on Hong Kong Stock Exchange. China COSCO, listed in Hong Kong on 30 June 2005, has also been included into the Hang Seng Index. Therefore, our capital structure is seeing a profound change: a proposed 5:4:1 structure is gradually taking shape. The 5:4:1 capital structure means that 50% of the capital comes from capital market, 40% from banks, 10% from self-accumulations.

2. Debt Financing through Commercial Papers and Assets Securitisation

Since the first successful launch of a commercial paper on 21 March 1995, COSCO have been successfully issuing commercial papers at international financial markets over the past seven consecutive years. Moreover, COSCO, based on the freights payable in North America, Europe, Asia, Australia, launched two asset-backed securitizations (debt financing) in 1997 and 1999 and successfully raised as much as US\$ 535 million. This move has financially strengthened COSCO's position for

future international strategy and global competitiveness.

3. Other Financing Methods of Ship Lease Financing

As for the utilization of international capitals, we have made some breakthrough progresses on ship lease financing apart from equity financing and debt financing. In order to solve the traditional problem of the high ratio of liabilities to assets, COSCO put forward an idea of transformation from operating owned tonnage to operating controlled tonnage in 1999. We entered into a partnership on ship lease financing business with European consortiums through our UK subsidiary. In this way, we successfully enhanced our shipping capacity without increasing the debts, so as to reduce the overall fleet operation cost. Since 1992, COSCO has increased its shipping capacity by some 10 million tons deadweight through overseas ship lease financing.

Compared with internationalization of products and services, capital internationalization operation is of the most essential significance. The access to global capital market allows COSCO to raise critical funds for our future development and promote our mechanism transfer as well as a rapid cost-effective expansion, thus help COSCO to maximize the operational profit, company value and return to shareholders. COSCO, in this way, added more value to state-owned assets and strengthened more control power of state-owned economy.

II. Globalized Thinking Plus Localized Operation

Generally speaking, the implementation of internationalization should stick to two basic principles: first, we should take full use of “three advantages”, namely, ownership advantage, internalization advantage,

location advantage. Second, we should try to find a dynamic balance between globalization and localization. COSCO summarized the above basic principles to globalized thinking plus localized operation, and strive to succeed in the following two aspects:

1. Benchmarking

Over recent years, we conducted quite a few benchmarking activities with advanced enterprises in the world as our targets. For example, COSCO learned advanced managerial experiences through 6-Sigma system of GE and has greatly improved its management capability and services. As to the second-tier shipping companies, we have asked their management to take active steps in benchmarking according to their business features, so as to catch up with the top standard in the world, rather than become self-satisfied in China. COSCO container fleet has taken Maersk, the largest liner company in the world, as their benchmark, and taken a number of crucial measures of deploying large vessels and designating hub ports, and has come back to the fast track in recent years.

2. Do as Romans Do

Cultures and laws may vary considerably in different countries and areas, we should observe local laws and cultures and run our business properly. COSCO Pacific, for example, has been operated in strict accordance with Hong Kong laws and regulations and as a result, their excellent records are well applauded by international capital markets. In 2003, this company won the Best Progress Award in the Campaign of the Best Information Disclosure published by Hong Kong Society of Accountants and was further ranked the most transparent company of all China-invested businesses by Asiamoney.

Another important part of Do as Romans Do is the localized management of overseas employees. A localized compensation system, in accordance with the market standard, makes the essential part of the localized management. We have launched stock option programs among the management team of the overseas listed companies, and as for average staff members, we also offer proper salaries according to the local market. All these measures have motivated overseas employees significantly.

In addition, we try to localize our overseas management team and offer the best marketing opportunities to our local staff. COSCO has 4,646 overseas employees worldwide. Of this number, 412 or 8.9% are Chinese staff. For any foreign staff, as long as you work for COSCO, you are a member of COSCO family, regardless of your place of origin or your race or color. Quite a number of overseas employees have been appointed as deputy managing directors or even managing directors in their local offices.

III. Building-up a Digitalized COSCO

Up until recent years, we stick to the basic guidelines as “Industrialization promotes informatization and in return informatization facilitates industrialization” as well as “focus on industrial informatization and walk towards information industrialization” and begin to build up a digitalized COSCO and have made huge progress. The IRIS-2 container transportation information system, SAP financial information system, the Global Intelligent Navigation System and other advanced information systems have all been self-developed or purchased from the outside and been effectively utilized.

In Nov. 2004, COSCO was awarded the Adaptive Enterprise in Asia and Pacific region over a public campaign jointly organized by Business Weekly and Hewlett-Packard. In Jan. 2005, in the public campaign organized by the National Informatization Evaluation Center (NIEC), several COSCO companies were ranked on the list of Top 500 of Informatized Enterprises while COSCO Group head office ranked No. 9. Further, COSCO's informatization strategies and its achievements have been included twice into the world-renowned case banks of Harvard Business School, and these have brought a favorable image to COSCO in both China and overseas.

IV. Sound Interaction between Enterprise Interest and National Interest

Years overseas development give us a better understanding that when we are in a foreign country, we stand for more than ourselves. COSCO's growth is closely linked with the growth of the country. There is no doubt that an enterprise's interest can get actively interacted with the country's interest.

As one of China's SOEs, COSCO had suffered an unfair treatment for years in US – the status of controlled carrier. In order to solve this problem, apart from seeking support from our government, we have also made great efforts in public relationship work. Based on feasibility analysis, we decided to extend our container liner service to the port of Boston. This wise decision has brought back not only economic benefit but also political and diplomatic progress to us. In Dec. 2003, Premier Wen Jiabao visited Boston on his trip to the US and spoke highly for COSCO's service to the port. He also expressed his wishes that more and more Chinese enterprises can go abroad and create new business

opportunities like COSCO.

In some countries where diplomatic relations have not been established with China, COSCO has also had a unique role as ambassador from the civil community through its business operations. COSCO has successfully hosted its 40th anniversary celebrations, as well as Asian Shipowners' Forum and promoted a positive image to the external parties. In recent years, I have been interviewed by the Dialogue of CCTV and leading US media, have delivered a speech at the Harvard University and won a number of international awards. These awards include the Hall of Fame Award presented by the Llyod's List and Maritime Asia in Dec. 2003, the Port Pilot Award presented by the Port of Long Beach in Mar. 2004 and the Panama Maritime Excellence Award presented to COSCO in Feb. 2005. Moreover, successful organizing of the Boao Forum for Asia, the International Shipping (China) Summit 2004 and the forthcoming International Shipping (China) Summit 2005 have also significantly helped promote the image of COSCO and increased its popularity. Today, we can read more and more positive articles of COSCO on the mainstream media in western countries and a well-established and positive image of COSCO has also promoted western media to set up a fair and objective recognition to China and Chinese business community.

We have learned that Chinese enterprises at overseas should depend on our government and gain an equally competitive status, but at the same time, we can also build up our images by our own efforts, so as to promote the development of the diplomatic and economic relations with foreign countries and achieve the theme of this summit – Harmonized Development, Sharing Prosperity.

V. The Transformation from Transnational Operation to World-class Multinational Company

COSCO is now accelerating its overseas expansion on the basis of transnational business operations. In terms of statistics, COSCO will gradually expand its investment scale and operational scale at overseas in the coming years and increase its index of internationalization. We will focus on the following four aspects for investment: first, expansion on service routes and shipping capacities including investments on ports and terminals; second, improvement of marketing networks; third, improvements of logistics facilities; forth, maintenance and improvements on informatization and computerization. Investment and operational modes can vary from sole ownership, joint venture, joint management and merger & acquisition. By 2010, COSCO is expected to be included into the Top 500 with an overseas assets of US\$ 10 billion and an annual revenue of US\$ 14 billion. COSCO will then become a true world-class multinational company with enhanced international competitiveness and have a solid foundation to realize our ambitious target to build up a hundred-year company.