What will China Further Contribute to World Shipping?

Capt. Wei Jiafu, President and CEO of COSCO Group

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Respected Chairman, Distinguished Delegates,

Ladies and Gentlemen:

It's my great pleasure to speak to you again. As you can see from the title of my presentation, I would like to discuss what China would further contribute to world shipping.

On previous summits, I proposed the idea of "China Factor" and its impacts to shipping industry. All of us believed that behind the booming shipping market, China factor worked. Today, one year later, when we review what have happened with shipping market, it is our firm belief that "China Factor" still plays a crucial role to shipping market, drawing even greater attention from the maritime community.

However, in the past year, some new changes took place in shipping market. With regard to container, though China's foreign trade grew another 24.3% to nearly 800 billion US dollars in the first half of the year, with cargo volume growing steadily on both westbound and eastbound services, the freight rates unfortunately dropped significantly, as a result we all suffer from the rate cutting. For dry bulk, the market corresponded to the negotiations of iron ore pricing, was down to the bottom at late spring time, and bounced back from the beginning of the 3rd quarter. This is also different from past years. Further we saw tremendous investment on larger ships, 10,000 TEU ships, VLCC, VLOC, and etc. In addition, the industry also saw a trend of integration, both vertical and horizontal, which consolidates terminal, logistics, and land transportation. Also investments rushed in and operations on the capital market accelerated.

With all these changes in mind, how did these new changes interact with China Factor on the market? What impacts did China Factor add to these changes? What will China Factor further contribute to the future market?

First let's take a close look at China's economic and trade policies this year. China has got another 10% growth in terms of GDP in the first three quarters. With the argument of overheating in some sectors of the economy, China has continued to enhance its macro-control measures. The government has introduced a series of policies of finance, land and environmental protection to reduce the speed of investment growth. Different from past year practice, those measures are not applied to all sectors, instead only to those of overheating. Take steel industry as an example, while strict procedures were adopted in approving small iron and steel projects with low technological capacity and high energy consumption, favorable policies are introduced to encourage large scale projects with high technology contents.

In terms of trade, the monthly growth of China's trade surplus kept growing in the last few months. Meanwhile, China made products, such as leather shoes, TV sets, furniture, textiles, agricultural products, are experiencing more and more trade barriers overseas. To better balance the trade, Chinese government has introduced policies like imposing export tax on textile products, reducing or eliminating tax-returns of some export products. Though the government is keeping a stable appreciation of RMB, the expectation of further appreciation still stimulates the exports.

The results of these measures include a slight decline of GDP growth and the fixed assets investment in the 3rd quarter. Structural adjusting measures have also helped cool down the growth of coal, cement and aluminum industries. Further growth of import and export of machinery and electronic products and high-tech products were seen, also there was an increase of oil and other resources imports, with the reduction of exports at the same time. According to China Customs, export of machinery and electronic products has increased by 30% and reached 38.84 billion US dollars in the first three quarters of this year. We also saw a reduction of steel products imports, while exports of steel products increased dramatically. New steel industrial policy plus the delayed iron ore pricing negotiation reduced the expectations of sharp increase of iron ore imports, which caused the fluctuations of the dry bulk market.

But what will happen in the long run?

First is the transformation of economic growth pattern. Over the past three years, Chinese government has launched new macro control measures, in order to alter the periodic development pattern and change the economic growth pattern characterized by low consumption, high investment and high energy consumption. The decrease on the fixed assets investment and the increase on the social consumer product retail sales in the 3rd quarter of this year, indicates that China’s economy has now been driven by investment, export and consumption instead of investment and export alone.

The second is the economical restructuring. In terms of industrial structure, high-end manufacturing like machinery and electronics and automotive industry, modern service industries such as communications, logistics and finance, are growing by over 30% year on year, while heavy and chemical industries are still driving the economic growth. In terms of regional structure, the industrial relocation from east to central and west regions and from Pearl River Delta and Yangtze River Delta to Bohai regions is speeding up, marked by government's resolution to build a harmonious society and new rural regions as well as the state council's decision to promote the development of the coastal areas of Tianjin. Over the past two years, thousands of factories have moved from the Pearl River Delta to the inland. In terms of trade structure, China has started upgrading its export products, such as toys and furniture, to high value-added products, for example, mobile phones and automobiles.

To sum up, China's economy is undergoing a crucial phase of transformation, which may last five to ten years. In this phase, China's economy and trade will keep its momentum. However, the growth will gradually get moderated. The Ministry of Commerce would like to see a trade growth in the following five years to an annual average of 10%. Therefore, for the shipping industry, the irregular market fluctuation from 2003 to 2005 will not be repeated. Instead, there will be a stable and sustainable market growth. But the stability is by no means a drastic decrease of opportunities. On the contrary, these changes in China foretell great opportunities for the shipping industry.

First of all, China's stable economic and trade growth will continue to create growing demands for shipping

Shipping market copies the cycles of economy and trade. Take dry bulk for example, in the past three years, we have seen sharp rises and falls of BDI index, correlating the fluctuation of China's trade. Shipping does not like fluctuations, we welcome a stable and sustainable development, which can only be guaranteed by a healthy, stable economy. That is also the goal of the Chinese government.

Further, Chinese economy itself can also eliminate concerns of our industry. Studies show that before China realizes "Complete Industrialization", marked by 15,000 US dollars in per capita GDP, a nation's consumption of primary resource products will continue to increase for a long time. Currently China's per capita GDP is 1,703 US dollars, indicating that in a long period, China's demands for energy and resources will keep increasing. In the following five years, China is expected to become the 2^{nd} largest oil importer. Each year, China will need at least 70 VLCC tankers to ship the oil imports. With the arrival of China's first imported LNG to Shenzhen this June, China will then become an important country of LNG import. The Ministry of Communications estimated that by 2010, China will see 2.9 billion tons of cargo on waterway and 6.6 trillion ton-kilometers of cargo turnover volume, over 7.2 billion tons of port throughput, and 130 million TEUs of container throughput in major coastal ports. These estimated statistics demonstrates great opportunities for the global shipping industry.

Second, China’s trade restructuring will lead to a balanced development of import and export

China’s trade surplus has reached 109.8 billion US dollars in the first three quarters of this year. To offset the huge trade surplus, China will increase some products import such as machinery, electronics and hi-tech products. In addition, with economic growth in inland regions and increase on farmers income brought by new rural regions construction, Chinese consumers’ demand on imported products are mounting year over year. We believe that in the next five years, with further adjustment of China’s export and import structure, the unbalanced cargo volume in respect of eastbound and westbound routes, which has eroded profits on shipping services for many years, will be improved.

Third, the improvements of China’s economic structure will bring more investment opportunities for the shipping industry.

The port jam and insufficient capability of inland transportation have been the bottleneck to the international shipping industry. In spite of eight super large ports with annual throughput over 100 million tons, China still encounters cargo jams in port.

To get rid of the congestion, this September, Chinese government has issued the *Layout Planning for China’s Coastal Ports*, which sets the target of the establishment of five large-scale, intensive and modernized port networks as well as eight high efficiency circulation systems.

According to the plan, a total of one billion dollars will be invested in the traffic infrastructure in the following five years. We believe that these ports and inland infrastructure to be built will ensure 27% of annual growth for China's shipping industry and present enormous opportunities for the international shipping industry.

China, the world's largest country in terms of cargo throughput, plays a key role in the success of the transportation and logistic industry. The third-party logistics industry, still at its early stage in China, is estimated to enjoy an annual growth of 33% in the coming five years. The consolidation and integration of Chinese logistics has just started with foreign logistics providers coming in.

The shipbuilding industry has experienced tremendous growth over the past 15 years. In 2004 South Korea overtook Japan to be the world's largest shipbuilder while China aims to take the lead in the global shipbuilding industry within 10 to 15 years. Currently Chinese shipbuilding companies provide mainstream ships such as VLCC, container ships and bulk carriers for the market, with high quality, new technologies and competitive price. Apart from that, China is becoming the world's ship repair center with its competitive labor force. With improvement of technology and equipment, China is grabbing for a larger global market share in ship repair industry, which will refocus on high value-added oil tankers, special ships and converted ships like FPSO rather than bulk and conventional ships.

To conclude, in the next five to ten years, China will not only maintain a stable goods supply and an open market for the global shipping industry, but also offer more opportunities for the industry to extend to the upstream and downstream of the value chain, hence drive the flow of international capital to the global shipping industry.

Ladies and gentlemen,

We are now in Shenzhen, a city of modernization. But 25 years ago, it was only a small and isolated fishing village known by nobody. Now, no shipping line would forget to add Shenzhen as port of call when designing their services. Standing firmly as the fourth largest container port, it has got an annual foreign trade value over 100 billion dollars. This is a miracle created by China’s dynamic economic growth.

It is my belief that the development of Chinese economy would further contribute to world shipping and more business opportunities are expected.

Thank you very much.