

Development Strategy of Chinese Shipping Company under the Multilateral Framework of WTO

Gao Weijie vice senior executive president of COSCO Group

Respected Chairman, Honorable experts and Distinguished guests,
Ladies and Gentlemen,

Good morning

First of all, I am truly honored to be invited to attend such a grand conference. Here, on behalf of China Ocean Shipping (Group) Company (COSCO), I'd like to offer my sincere congratulation on the opening ceremony of "International Maritime Forum 2003". I wish the Forum a complete success. What I am going to talk about today is something about the strategy. That's what I am concerned and I suppose it's also exactly what the majority of people being involved in shipping show great interests in. Based on more than 40 years of operation in international maritime industry, we are willing to share our experiences and viewpoints with all of you.

I. Brief Introduction of China's Maritime Industry

China is believed to be a coastal state with abundant continent coastlines of up to 18,000 kilometers long. It is also regarded as one of the lucky countries in the world in terms of its ample shipping resources. This is especially true when it comes to the numbers of naturally excellent conditions of ports around the coast. Latest statistics show that the country's hinterland occupies 14.3% of the land of whole nation. With the help of nearly 40% of human resource living in these regions, coastal areas in China boast 50% of country's GDP contributions and carry out 80% of the nation's imports and exports value, the advantage of which creates preferential environment for the rapid, healthy and sustainable development of China's maritime industry.

Since the end of 1970s, China's economy has been witnessed consecutively strong momentum of growth, resulting in a sharp increase of multi-national and trans-regional trades, thanks to comprehensive achievements of domestic reform and opening-up policies. As a matter of fact, China's maritime industry has therefore been pushing upwards rapidly with the trend in a move to meet the growing requirements of foreign trades. The latest statistics show, up to now, the number of shipping companies in China has numbered up to more than 6,000 in all, covering a wide variety of sections from inland waterway and coastal transport services to international ocean shipping operations. In 2002, the water transport amount exceeded a historical high of 1.4 billion tons. The ocean fleet capacity of the nation stood at 54.5 mdw at the end of the year, more than double the figure compared with the one achieved in late 1980s. With 46% of GDP's

contributions led by foreign trades and 85% of imports and exports trades being closely linked with ocean shipping industry, international maritime industry has actually stood out as one of the key industries in China and the country is entitled to boast itself as one of the largest shipping countries in the world.

II. Retrospection of China's Maritime Industry

1. China's Maritime Industry has opened up to the outside world

- A. Foreign investors to be regarded as domestic players when participating in international shipping businesses
- B. Open up international liner businesses
- C. The commitment to terminal operations and managing auxiliary facilities for outside players
- D. China's WTO membership pushes the shipping industry forward into a completely new era of state

2. The goal of deepening and expanding reform and opening-up policy stimulate the rapid growth of China's seaborne trades

Since China adopted the reform and opening-up policies in 1978, the international shipping industry has been infused into a new kind of catalyst, promoting the healthy development of international shipping industry. Relevant figures show that over the past 24 years, China's foreign trade has soared almost 24 times, totaling up to 620.8 billion dollars in terms of trade value; The seaborne trade volumes from 1978 to 2002 have also experienced a rapid growth of nearly 10 times to achieve an all-time-high of 736 million tons. Among them, iron ore imports and coal exports have sharply risen by 17 times and 58 times respectively. The total imports of petroleum in 2002 posted at 89.75 million tons, indicating a significant increase of 13 times over 1978. As for liner business, preliminary figure shows that international container trade volumes went up to a historical level of 29,750,000 TEUs in 2002 compared with no more than 10,000 TEUs in 1978. According to PIERS, China now accounts for an estimated 45% share of the Fast East/Europe trade and close to 50% of the Transpacific eastbound market.

3. Chinese Shipping industry is getting stronger with the day by taking advantages of prosperous economic and trading climate

In the early stage of the foundation of the People's Republic of China, ocean shipping was nearly in the blank. It was not until 1961 the country established its own international shipping company----COSCO, the first of its kind in China. With only 25 ships on hand and a carrying capacity of some 200,000 tons a year, native shipping carries had difficulty in meeting the demands for China's international trades development. Between the 1960s and initial stage of the 1970s, China's shipping industry had long been lingering in a state of stagnation. During that period, the expansion of fleet capacity had been strictly restricted, let alone meeting the needs of economic and trading development. In 1965, China carried 17.54 million tons of foreign trade cargos, only 2.33 million tons of which was actually shipped by domestic carriers, indicating a market share of no more than 13%. Even in 1978, available fleet capacity for international trades was around 50 with annual carrying capacity of some 36 million tons. Due to insufficiency of tonnage supply, the majority of shipment demands for imports and exports trades had to rely on international helpers, which, to a certain degree, hamper the development of national economy.

China's economy continued to grow in an extremely fast and steady pace since 1990. Over the past 12 years, the country's GDP remained an average annual growth of 12%. Foreign trades for imports and exports appeared to be increasing by 20% annually. The rapid growth of demands has offered an unprecedented opportunity for the development of Chinese shipping industry. By 2002, China was reported to own and operate an international ocean shipping fleet of up to 37 million dwt, including the tonnages with five star flag and the flag of convenience. China was ranked fourth in the world based on this tonnage supply up from previous twelfth in 1978. China now is standing out as one of the largest countries in the world who is able to offer a comprehensive package of ocean shipping services with fleets covering a wider range from traditional bulk tonnages to more value-added ones such as post-panamax container vessel, heavy-lift ship, LNG carrier and so on.

III. Prospects of Chinese Maritime Industry

1. The Third Plenary Session of the 16th Central Committee of the Communist Party of China places a solid foundation for the healthy and sustainable development of Chinese shipping industry
2. Domestic shipping policy standard, open and not transparent, legal environment of shipping industry constant to perfect
3. Port infrastructure construction should be upgraded day by day in order to guarantee the steady development of Chinese maritime industry

IV. Development Strategy of Chinese Shipping Company

- 1 Participate in international competition in line with the market-oriented principles, expand and deepen cooperative fields, change rivals into cooperative partners in an effort to meet customers' requirements.

2. Further optimize global distribution resources
 - A. Further Optimize global freight transportation networks
 - B. Carry out specialization, economy of scale and intensive management via the implementation of merges and acquisitions
 - C. Set up human resources development strategy, further optimize the manpower structure, make great efforts to create a high-quality team of experts

Oct. 30, 2003