

# **Gaining from “China Factor” through Win-Win Partnerships**

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Mr. Houston, distinguished participants, ladies and Gentlemen:

On the first World Shipping (China) Summit last July, we produced the concept of “China Factor”. Ever since then, it has been a hot topic. Now what is the new development of “China Factor”? Where is it heading for? How should we cope with it? And I hope my presentation will be a beginning of a new round of constructive brainstorming.

## **I. “China Factor” remains the key engine for the world maritime industry**

As globalization proceeds, the industrial structure has been changing on a global basis. Asia, especially East Asia, has grown into the world’s largest importer of raw materials and largest exporter of finished products. Asia has become the most dynamic region of shipping in the world. Particularly China’s performance has attracted most attentions. China’s foreign trade has been growing dramatically, producing huge demand for shipping. The robust shipping market since second half of 2003 is largely due to the driving force of “China Factor”.

In the past one year, “China Factor” has continued to provide power for shipping demand. China’s foreign trade cargo totaled over 1 billion tons

in 2004, almost twenty percent higher than that of previous year. In the first eight months of this year, we got another 20% growth with our foreign trade cargo. China's total container throughput in the first nine months of this year has grown 23.9%, reaching over 54 million TEUs. Not surprisingly, "China Factor" is still playing an instrumental role in container, dry bulk and tanker markets. And we have more to say, such as LNG and exports of autos.

The impacts of "China Factor" to world shipping have been more evident compared with one year ago. For example, the fluctuations of liner freight rates during the three golden-week holidays of China, and the BDI movements in the second half of 2004. Moreover, the impacts of "China Factor" have been wider. Ports, shipbuilding, ship repairing, crew manning, ship financing, legal services and other related businesses all benefit from "China Factor". These shipping related sectors are accelerating their move to those Asian shipping centers like Hong Kong, Singapore and Shanghai.

Shipping has become a business that yields high returns. Just as Mr. Long Yongtu, secretary-general of Boao Forum for Asia, said, "shipping in the 21st century has again become a sun-rising industry." Share prices of shipping related companies were much higher than the index of major stock markets in 2004. A considerable scale of capital has flown into shipping industry. A growing number of shipping companies are financing their business growth from the capital markets. Financing channels such as German KG has once again prevailed. The successful listing of China COSCO Holdings on the Main Board of the Hong Kong Stock Exchange on June 30 this year has proven this result. China's financial circle has also seen the great potentials of shipping business.

In the backdrop of "China Factor", shipping industry has shown some

remarkable trends. First, mergers and acquisitions in shipping have been accelerated as the market competition becomes more intensified. These restructuring activities reflected the strong confidence to the future market. Second, the integration of carriers and ports has been speeding up. Joint investment and joint operation have become popular. So we have set up a special session in this Summit with the topic of “Interactive Partnerships between Ports and Shipping.” I believe you will hear great speeches in the session this afternoon. Third, shipping service is changing itself into more integrated door-to-door logistics solutions. Leading shipping companies have changed their strategies from capacity expanding to logistics services. The fourth trend is that shipping companies are forming more alliances. This trend has also been shown in the recent agreement reached by New World Alliance and Grand Alliance on major service routes.

To conclude, “China Factor” remains a key driving force for the prosperity of world shipping. A whole year passed, “China Factor” is influencing global shipping in a deeper, stronger and broader way.

## **II. The future of “China Factor”: changing from quantity to quality.**

China’s economy is growing fast, and China seems to be taking on a new look everyday. Take Beijing for example, how often does Beijing renew its urban map? Once a year, half a year, or a quarter? The answer is one month. Even so, there are still some road changes and new buildings which can be hardly marked. With regard to port congestions, many of us are experiencing delays, what are on board? I believe most of the cargo on board is iron ore and raw materials. This has proved from a side angle that China’s trade structure has greatly changed as a result of industrialization. Looking into the future, I draw the following conclusions for “China Factor”.

First, “China Factor” will continue to play a key role in the long run. Ever since 1978, China has experienced a development track which extends from the south to the north, from the east to the west. Today, China’s economy is supported by Pearl River delta, Yangtze River delta, Pan-Bohai economic zones, “The Westen Development Drive” strategy and “Revitalizing old industrial bases in Northeast”. The society is seeking a harmonious development between different regions of the country. China’s eleventh Five-Year-Plan will create the coordinative developing mechanism and take integrated advantages from the east, central and western regional growth of China. More specifically, it is planned that China will build its western region into replaceable base for energy and mining resources, its north east region into heavy industrial base, and its central region into logistics and modern agricultural base. The recent 5<sup>th</sup> plenary session of the 16<sup>th</sup> CPC National Congress has decided that by the end of eleventh Five Year Plan in 2010, China’s GDP will be doubled on the basis of the GDP in 2000. All these strategic plans will help add strength to the impacts of “China Factor”.

Secondly, the center of “China Factor” is converting from quantity to quality. In the past, the impacts of “China Factor” have been mainly on quantity of shipping demand. The shipping volume will still increase greatly, but as the global competition intensifies, customers will have more complicated needs on logistics and shipping services, which will add new meanings to “China Factor”. As a result, the focus of “China Factor” will change from quantity to quality. The quantity-focused growth model that over relies on capital, natural resources and environmental input, will be changed into a new developing model that stresses the quality of labors and technology innovations. So the future of “China Factor” will push shipping companies to create innovative service model and improve service quality to better meet the needs of customers for global competition. Such a change of “China Factor” provides another

opportunity to us.

Thirdly, “China Factor” has led global shipping into a golden growth period. China’s economy will maintain a dynamic growth momentum in the long run. On one hand, Chinese government has set up the strategic goals that an all-round well-off society will be fully achieved in the first twenty years of this century. On the other hand, the economic relations between China and other countries will be further deepened. With globalization and industrial restructuring, China’s position as World Factory will be more consolidated. Furthermore, China will invest more on infrastructures, improving the construction of ports and other logistics facilities. According to NDRC, in next five years, China will invest 400 billion Yuan to further improve the port infrastructure within Yangtze River delta, Pearl River delta and Pan-Bohai areas. Ports within these areas including Shanghai, Shenzhen, Ningbo, Guangzhou, Dalian, Tianjin and Qingdao will benefit from these investments. Tomorrow afternoon, the Summit will organize a tour to Yangshan port of Shanghai, I believe that you will all be impressed by the overwhelming scale of Shanghai’s port construction. Apart from the above, such factors as China’s industrialization, urbanization, Beijing Olympics 2008 will all help generate huge market demands. It is forecasted by the Ministry of Communications that by 2010, the total cargo throughputs of Chinese ports will reach 6.1 billion tons. And container throughputs will exceed 140 million TEUs. There’s no doubt that with the effects of “China Factor”, global shipping has entered into a golden growth period.

Meanwhile, we shall be aware that “China Factor” is also facing some challenges. The first one is that world economy is facing some uncertainties: high oil price, the enlarging budget deficit and the adverse balance of current items of the US, international conflicts and terrorist activities. Talking about surging oil price, Lord John Browne, Chairman

of BP shipping had a recent comment at the China Executive Learning Program in Cambridge University. He said the rapid growing investment made in the new oil fields and the net increase of non OPEC production will eventually stabilize the supply and demands of oil, and he sees the price might stabilize at around \$30 per barrel in the medium term. The second challenge is that trade-protectionism has shown signs of coming back. China has recently encountered more anti-dumping cases and trade clashes. Thirdly, carriers are experiencing cost pressure because of the surging oil price. The fourth challenge is the bottleneck effects of ports. The shortage of stevedoring capacities and the lack of inland distribution infrastructures will lead to more congestions at major ports across the world.

### **III. Dealing with challenges and opportunities of “China Factor” through win-win cooperation.**

Facing the huge opportunities and challenges brought by “China Factor”, what shall we do to cope with? I believe it is only with extensive cooperation can businesses realize their growth together with “China Factor”, and to gain from “China Factor”. Therefore, I’d like to make three proposals here:

First of all, we should upgrade the capability and the quality of maritime services. In order to achieve a long-term and healthy development of shipping industry, carriers across the world should fuel the fast-growing China market with enough capacity, continue to improve service quality, satisfy every need of customers, establish long-term cooperation with customers, and meet the needs of logistic supply chain management to help sustain China’s role as a World Factory.

Secondly, we should extend cooperation. Cooperation and developments are themes of shipping. Cooperation can be done in a multi-dimensional

way. It includes cooperation between carriers and shippers, and cooperation among carriers and other shipping-related businesses. These will allow us to establish win-win cooperation model. Moreover, all shipping companies should strengthen communications, promote mutual trust and help maintain the common interests in order to realize stable developments of shipping industry.

Thirdly, we should maintain a sound order for shipping industry. A stable and foreseeable market environment will benefit both supply and demand parties as well as investors. Industrial organizations should play a more important role in promoting communications, trust and understandings among shipping companies and related businesses. The principle of “dialog, consultation, cooperation and service” will help maintain the interests of all players in the maritime business, help promote the relationships between shipping-related businesses and governments, aim at establishing integrated growth model for China’s maritime industry, and to contribute to the long-term and healthy growth of “China Factor”.

COSCO Group sticks to the principle of advancing win-win and multi-win in international maritime business. We are striving to strengthen the relations with carriers, shippers and intermediary parties on the basis of the maximum of interests for business partners. On the liner side, the CKYH alliance will continue to benefit the industry. On the terminal operation side, we have established joint ventures with both terminal operators and ocean carriers. With regard to ship finance, we work very closely with our partners in the US and many European countries. In terms of freight, we have set up strategic partnerships with many Chinese and overseas steel, coal, oil and home appliances corporations, and etc.

COSCO will be happy to get an opportunity to work closely with all of

you in respect of shipping, logistics, finance, maritime safety, insurance, terminal operation, trade stabilization, IT, manning service and etc. Let us join hands to face the upcoming opportunities and challenges brought by “China Factor”. Let’s work together to create an even more exciting prospect for world shipping.

Thank you.