Development Strategy and Policy of China’s Shipping Industry
Brief Overview

- Characteristics of Shipping Industry and its Importance
- China's Shipping Industry Development Evaluation
- Mode and Experience of Shipping Developed Countries
- Goal of China Shipping Industry Development
- Mode and Measures of China Shipping Industry Development
1. Characteristics of Shipping Industry and its Importance
1. Characteristics of Shipping Industry and its Importance

- Shipping industry is a highly international, flowing and competitive industry.
### 1. Characteristics of Shipping Industry and its Importance

**Law of World Shipping Market Development:**
Long Tough Days and Short Booming Days

#### World Shipping Business Cycle

<table>
<thead>
<tr>
<th>Year</th>
<th>Prosperity</th>
<th>Recession</th>
<th>Cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>1741–1871</td>
<td>6.1</td>
<td>8.7</td>
<td>14.9</td>
</tr>
<tr>
<td>1871–1937</td>
<td>2.6</td>
<td>6.7</td>
<td>9.2</td>
</tr>
<tr>
<td>1947–2007</td>
<td>3</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>1741–2007</td>
<td>3.9</td>
<td>6.8</td>
<td>10.4</td>
</tr>
</tbody>
</table>

**Tough days vs Booming days = 1.7:1**

Long-term return on investment of shipping industry is lower than average.
1. Characteristics of Shipping Industry and its Importance

Shipping is a strategy channel for China's economic development and globalization.

- External Dependence
- % of Shipping

Economy: 45%
Crude Oil: 57%
Iron Ore: 67%

N: Suez Canal
E: Panama Canal
W: Cape Town
S: Port of Singapore
N: Cape Horn
E: Sunda Strait
2. China's Shipping Industry Development Evaluation
2. China's Shipping Industry Development Evaluation

- China highly depends on shipping, but its shipping industry is weak.
### 2. China's Shipping Industry Development Evaluation

#### Net profit of Shipping Company: China Vs Foreign

<table>
<thead>
<tr>
<th>Year Company</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maersk</td>
<td>217</td>
<td>583</td>
<td>-2088</td>
<td>2626</td>
<td>-553</td>
<td>461</td>
<td>1510</td>
</tr>
<tr>
<td>OOCL</td>
<td>552</td>
<td>272</td>
<td>-402</td>
<td>1867</td>
<td>182</td>
<td>296</td>
<td>47</td>
</tr>
<tr>
<td>Evergreen</td>
<td>348</td>
<td>21</td>
<td>-330</td>
<td>508</td>
<td>-104</td>
<td>4.3</td>
<td></td>
</tr>
<tr>
<td>MOL</td>
<td>1695</td>
<td>1392</td>
<td>142</td>
<td>699</td>
<td>-334</td>
<td>-2060</td>
<td>550</td>
</tr>
<tr>
<td>CSCL</td>
<td>437</td>
<td>19</td>
<td>-950</td>
<td>621</td>
<td>-425</td>
<td>82</td>
<td>-417</td>
</tr>
<tr>
<td>COSCO</td>
<td>2510</td>
<td>1559</td>
<td>-1104</td>
<td>999</td>
<td>-1617</td>
<td>-1494</td>
<td>37</td>
</tr>
</tbody>
</table>
## 2. China's Shipping Industry Development Evaluation

**Big?** Yes!

<table>
<thead>
<tr>
<th>Positive Aspects</th>
<th>Negative Aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Shipping fleet: top in the world</td>
<td>- Weak influence on major shipping lanes</td>
</tr>
<tr>
<td>- Supportability: improved significantly</td>
<td>- Lack of ability to deal with maritime accidents</td>
</tr>
<tr>
<td>- Port Status: First in the world</td>
<td>- Trade in shipping service grew rapidly, but the deficit is expanding</td>
</tr>
<tr>
<td>- Shipping Company Status: Advanced</td>
<td>- Performance of enterprise economic fluctuated, and ability of sustainable</td>
</tr>
<tr>
<td>- International terminal company status: preliminary established</td>
<td>development faced challenges</td>
</tr>
<tr>
<td></td>
<td>- Little people and low level in international organizations, which doesn’t</td>
</tr>
<tr>
<td></td>
<td>comport with China’s status</td>
</tr>
<tr>
<td></td>
<td>- Proposal on maritime affairs: small number, low quality, barely adopted</td>
</tr>
</tbody>
</table>

**CCS status:** steady rise

- Quantity and competency of seafarer: Improved Significantly
- Permanent member of UN Security Council
- Implementing international obligations
- Participating in the international maritime affairs
3. Mode and Experience of Shipping Developed Countries
3. Mode and Experience of Shipping Developed Countries

**China**

- not general competitive and service industry, but national strategic service and basic industries

**Shipping developed country**

- The U.S: sees merchant fleet as “nation’s fourth arm of defense”, second to the armed forces, use legal means to protect marine development.

- Japan: sea lanes is regarded as “the lifeline of Japan”

- Europe: rise in sea, shipping still have played an important role in promoting economic growth and ensuring European integration and sustainable development.
3. Mode and Experience of Shipping Developed Countries

Evolution mode of strong shipping nations:

Europe: Policy-lead mode

U.S.: Sea power-control mode

Japan: Benefit-sharing mode

- In the development of shipping industry, all developed countries find the patterns which suit their own national conditions.
- China does not have the ability to completely copy the mode of any those successful countries, and should explore a unique development route with Chinese characteristics.
4. Goal of China Shipping Industry Development
4. Goal of China Shipping Industry Development

Four stage of China’s shipping development:

- **Strategic preparation stage (2000-2004)**
- **Strategic framework stage (2005-2010)**
- **Formation of comprehensive marine power stage (2011-2020)**
- **Realization of powerful shipping nations stage (2021-2040)**

Division of the stages based on: model calculation and law of national development stage.
4. Goal of China Shipping Industry Development

**Characteristics of development opportunities**

- **2000-2004**
  - Rapid growth in demand

- **2005-2010**
  - Unprecedented flourishing market

- **2011-2020**
  - Steady growth in demand, the market experienced long adjustment. China has taken part in global shipping affairs and enhanced the level of marine technology. Role of shipping industry has been widely recognized and geared policy to the international conventions.

- **2021-2040**
  - The great rejuvenation of China

**Missions**

- Relief capacity constraints
- Balance of demand and supply in general
- Form comprehensive marine power and achieve transformation development
- Improve leadership of shipping industry and become powerful shipping nation.
5. Mode and Measures of China Shipping Industry Development
5. Mode and Measures of China Shipping Industry Development

Mode of China‘s shipping industry development:

- Core: construction of maritime powerful nation
- Three major aspects of breakthrough:
  1. Make economic policy in line with international standards
  2. Build the shipping industry chain
  3. Improve the competitiveness of the shipping industry itself
5. Mode and Measures of China Shipping Industry Development

(1) Make economic policy in line with international standards

- Raise the threshold for personal income tax of seafarers

<table>
<thead>
<tr>
<th>Time</th>
<th>General threshold for personal income tax</th>
<th>Threshold for personal income tax of seafarers</th>
<th>Extent of privilege</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-2005</td>
<td>800 yuan</td>
<td>4000 yuan</td>
<td>5 times</td>
</tr>
<tr>
<td>2006-2008.2</td>
<td>1600 yuan</td>
<td>4800 yuan</td>
<td>3 times</td>
</tr>
<tr>
<td>2008.3-2011.8</td>
<td>2000 yuan</td>
<td>4800 yuan</td>
<td>2.4 times</td>
</tr>
<tr>
<td>2011.9</td>
<td>3500 yuan</td>
<td>4800 yuan</td>
<td>1.37 times</td>
</tr>
</tbody>
</table>
5. Mode and Measures of China Shipping Industry Development

(1) Make economic policy in line with international standards

- Reduce income tax of shipping company and eventually implement tonnage tax

Tax comparison between China and foreign shipping company when they gained profit

<table>
<thead>
<tr>
<th></th>
<th>Maersk</th>
<th></th>
<th></th>
<th>COSCO</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>1571</td>
<td>525</td>
<td>-532</td>
<td>14877</td>
<td>25406</td>
<td>3023</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>61</td>
<td>64</td>
<td>70</td>
<td>2951</td>
<td>4552</td>
<td>682</td>
<td></td>
</tr>
<tr>
<td>Tax rate</td>
<td>4%</td>
<td>12%</td>
<td>-</td>
<td>20%</td>
<td>18%</td>
<td>23%</td>
<td></td>
</tr>
</tbody>
</table>
5. Mode and Measures of China Shipping Industry Development

(1) Make economic policy in line with international standards

- Establish and perfect the financing mechanism

<table>
<thead>
<tr>
<th>Germany</th>
<th>U.S.</th>
<th>Singapore Korea</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>KG funds</td>
<td>CCF</td>
<td>Shipbuilding industry funds</td>
<td>Capital cost higher than other shipping countries for a long time</td>
</tr>
</tbody>
</table>
5. Mode and Measures of China Shipping Industry Development

(2) Build the shipping industry chain

- no condition to imitate U.S mode for a long period of time.
- Hard to learn European mode in a short time
- Japan’s experience is worth more for China to use for reference
5. Mode and Measures of China Shipping Industry Development

(3) Improve the competitiveness of the shipping industry itself

- "Going out"
- moderate diversification
- specialize and strengthen the main industry
Thank you