China's Transport Infrastructure and Logistics

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Executive summary

- China's economy registered annualised average growth rates of more than 8% throughout the 1990s. Recent accession to the World Trade Organisation will provide a long-term boost with GDP envisaged to grow by 9% plus in 2004 and 2005. By 2025 China will be the second largest economy in the world.

- Foreign direct investment in China has grown continuously over the past 20 years. In 2000, the contractual value of overseas projects totalled US$9.7 billion. The Japanese, South Korean and Taiwanese are the biggest investors.

- The coastal provinces attract most of the investment, with well over 40% of projects concentrated in the Shanghai region. However, interest in the interior is increasing and the Chinese Government's 'Go West' policy will build awareness of the opportunities and encourage further activity.

- China accounts for more than 4% of world trade. In terms of container traffic, China controls between 20% and 25% of global import/export volumes, while on core routes such as the transpacific and Europe/Far East/Europe, the country has a 50% to 60% share of the market.

- The tearing down of import quotas and the reduction in tariffs will boost import/export exchanges. In 2005, China is projected to have a 6.7% and 6.6% share of global exports and imports, respectively. Meanwhile, container traffic is expected to total at least 40 million teu, up from 21 million teu in 2001.

- A relatively small number of containers are moved inland at the current time, with through-transport systems extremely limited in scope.

- In China, it can cost 50% more to transport goods inland than in Europe and/or North America, while the quality of service is poor.

- A combination of multinational companies selling more of their products in China and state-owned enterprises having to reorganise their operations to become more competitive is fuelling the need for value-added logistics services.

- Logistics is at the 'centre stage' of the government's 10th five-year plan and is being backed by US$18 billion in investment.

- Road, rail and inland waterway/coastal shipping infrastructure is being modernised and expanded, with the focus geared to the creation of multimodal transport hubs and regional distribution centres.

- Most of China's transport sectors will be opened up to foreign ownership over the next three/four years. However, domestic air services (including freight) and inland waterways/coastal cabotage operations will remain under state control.

- There is still a desperate need to reform legislative and Customs procedures if the government's logistics strategy is to succeed. Cross-border trucking restrictions are impeding traffic growth and require immediate attention. Standardisation and support is also needed on the IT front.

- China's 3PL industry is in its infancy, attracting just 1.5% of the country's total spend on logistics (transport services). This compares with an average of 10% in developed economies. Growth though, is expected to average 20% to 25% over the next five years.

- There is no shortage of companies wanting to get involved. Ocean carriers, such as APL, are well positioned as are several of the world's global freight forwarding groups and international terminal operating companies. Domestic enterprises, such as Sinotrans and Cosco are investing heavily in this business too, while large manufacturers, such as Haier, have created dedicated logistics divisions that are chasing third party accounts.

- The next five years will see a significant increase in outsourcing activity. 3PLs will be the main beneficiaries of this process and as the market evolves the 4PL and 5PL sectors will enjoy growth.

