

CHINA'S IMPACT ON EUROPEAN SHIPBUILDING

Jonathan Holslag



Minister of Industry Miao Wei, 2016: “We need to stand by our ship-building industry. We will support our ship-building companies at any expense. China needs a world-class maritime industry to become a world power. It is of strategic importance.”



China's economy is in trouble.





July 2006: "China's economic growth is unstable, unbalanced, uncoordinated, unsustainable."

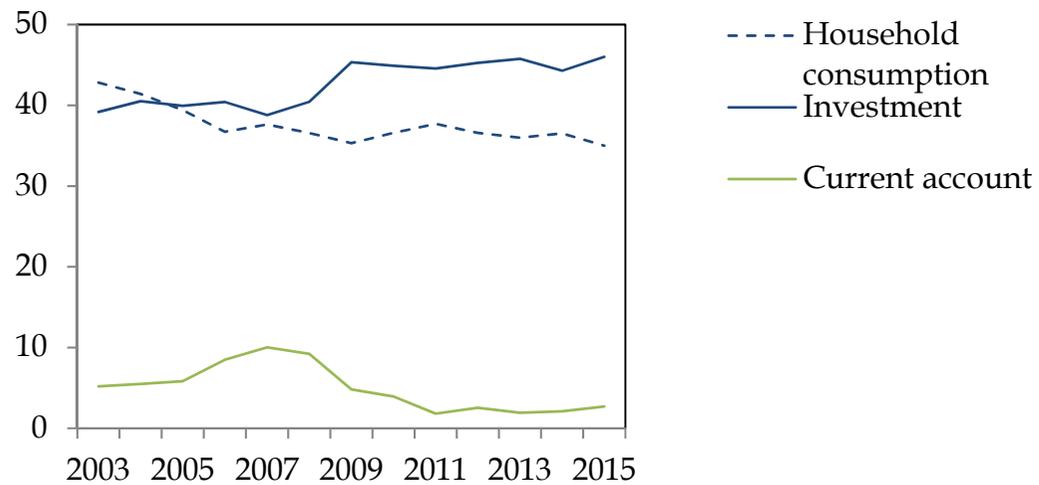


Chart. Components of China's GDP (%). Source: China Department of Statistics.



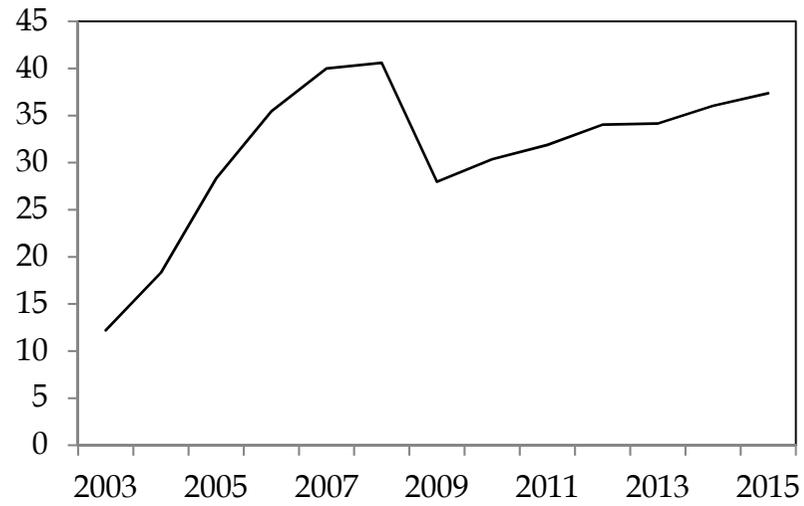


Chart. Manufacturing export dependency ratio. *Source:* Calculations based on China Department of Statistics.



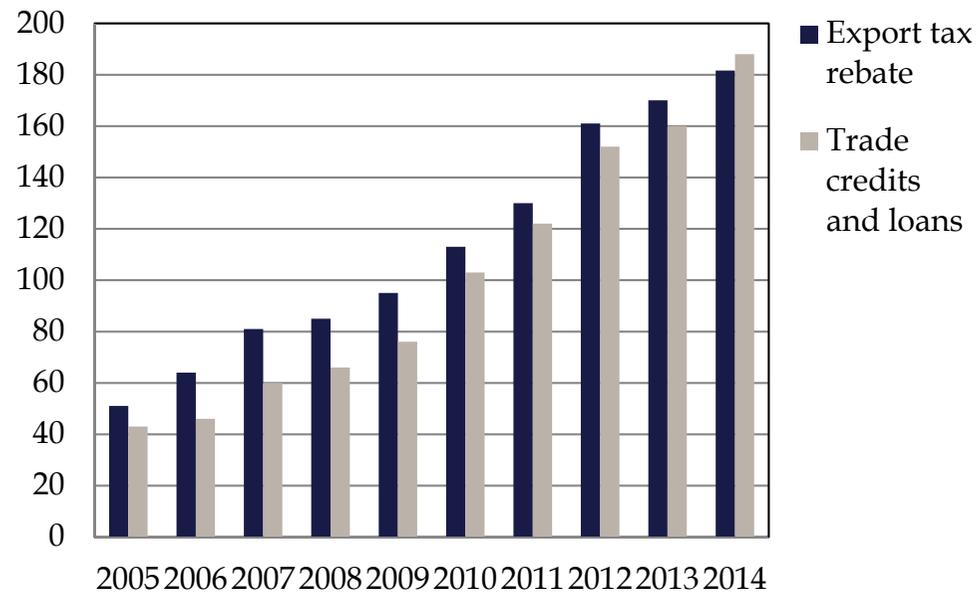


Chart. Export support (US\$ bn). Source: SAFE, Minfin.

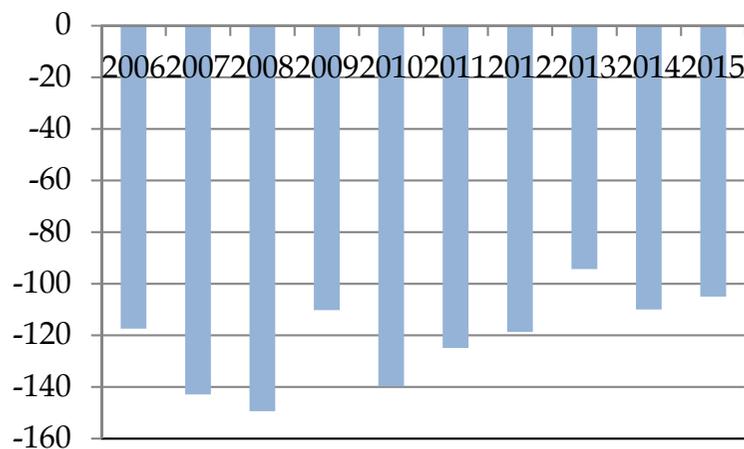


This has severe consequences for Europe





2006: "We will work with Europe towards a strong and balanced economic partnership."



> A drain of 1,2 trillion Euros

Chart. Current account with China (bn Euro). Source: Eurostat. Note: Estimation for 2015.



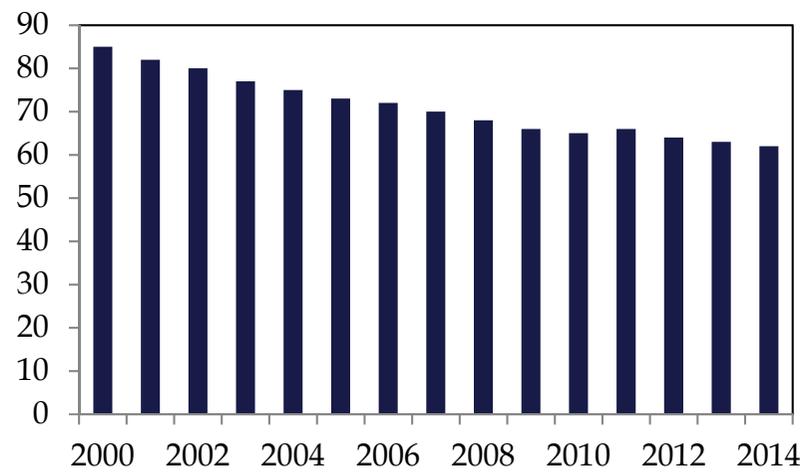


Chart. EU-China Export complementarity index (% for 5,775 HS categories). Calculations based on UN Comtrade.



	2008	2009	2010	2011	2012	2013	2014	2015	2012-2015
China	314	254	343	422	433	457	486	467	+31
Netherlands	79	63	72	84	82	82	82	69	-14
France	133	105	113	129	125	124	122	105	-19
Germany	383	283	320	384	358	370	370	321	-37
Italy	111	82	88	108	103	106	106	89	-14
Portugal	5	4	5	6	6	6	6	5	-1
Spain	54	41	48	58	55	58	59	52	-3
EU	1.278	959	1.084	1.298	1.230	1.278	1.285	1.097	-133
Total	3.488	2.599	3.213	3.931	3.963	3.973	3.920	3.321	

Table. Exports to OBOR countries (bn US\$). Source: Eurostat.



“The rebalancing policy has not failed. Foreigners have just misunderstood it. We will rebalance towards consumption, but only if we have circumvented the middle-income trap. This means that we need a more competitive industry first, especially in sectors like semiconductors, new energy sources, advanced chemical goods, etc.”

“We will depend on external demand for our industry for at least another decade. The European Union remains the easiest target in our export strategy. Economically it is rich, politically it is divided.”

“The goal is to consolidate our market share in labour intensive goods, to expand our share in advanced manufactured goods, and to become equal to the developed countries in exporting services.”



The shipbuilding/offshore industry is affected too.



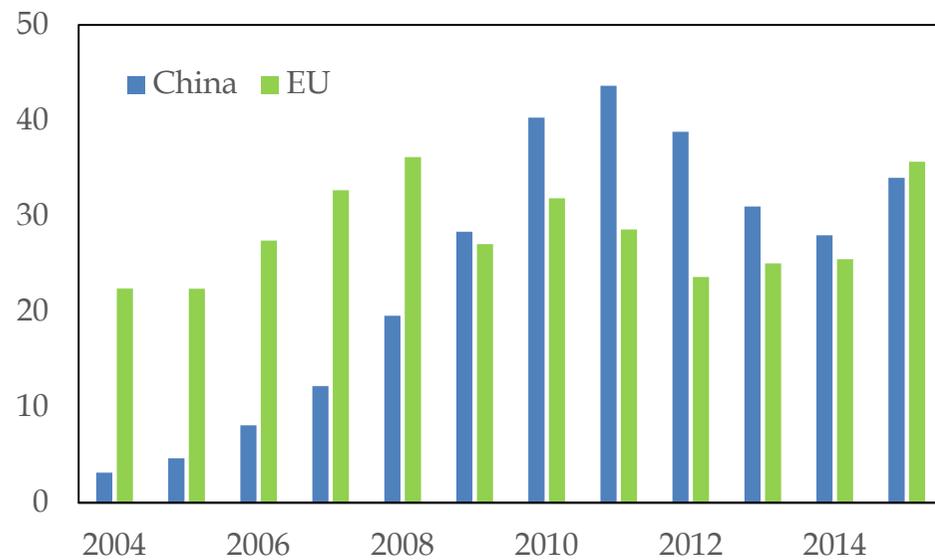


Chart. Export of ships and maritime equipment (US\$ bn). Source: Calculations based on UN Comtrade.



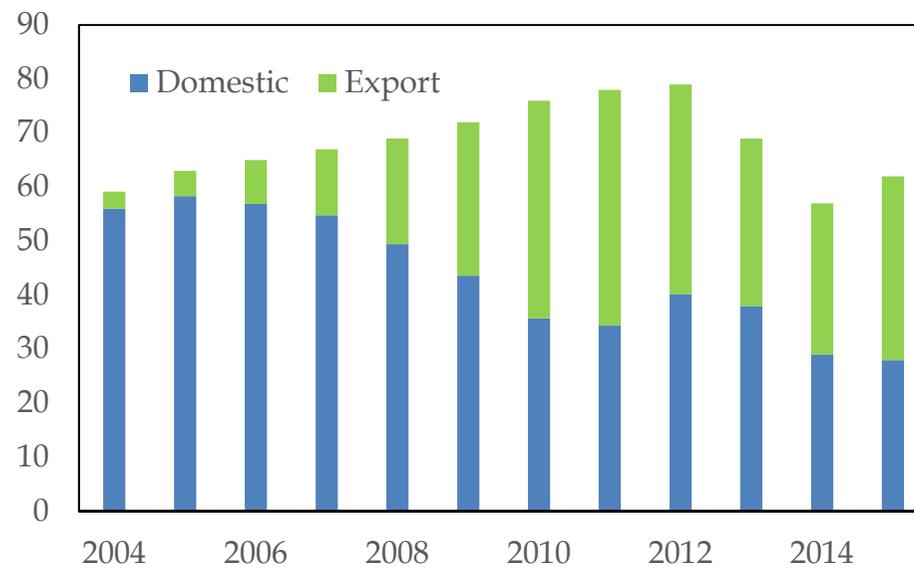


Chart. Destination of ships produced in China. Source: Calculations based on China Department of Statistics.



What explains China's spectacular rise in shipbuilding?



NDRC, 2002. Tenth Five-Year Plan. Beijing: NDRC.

. Target: bulk, container, military, fishing

NDRC, 2007. Eleventh Five-Year Plan. Beijing: NDRC.

. Target: bulk, container, LNG, tankers, offshore drilling, military, fishing

MIIT, 2009. 船舶工业技术进步和技术改造投资方向2009-2011.[Shipbuilding industry technological progress and technological transformation investment direction 2009-2011]. Beijing: MIIT.

. shift towards high-tech

. Target: LNG-vessels, 10,000 TEU, engineering , large RoRo, chemical tankers, yachts, ocean fishing



MIIT and NDRC, 2011. 船舶工业十二五发展规划 [Shipbuilding industry second five-year development plan]. Beijing: NDRC.

“Shipbuilding is a strategic industry that integrates military and civilian interests. It is of great significance to safeguard our national maritime rights and interests, to speed up the development of the oceans, to safeguard strategic transportation, to promote the sustained growth of the national economy and to increase the employment of the labor force.... The shipbuilding industry will be developed according to our countries national strategic interests.”

Targets:

- . a critical stage: “big but not strong”
- . consolidate position as leading ship builder
- . independent innovation and foreign acquisitions
- . military and civilian integration
- . three industry areas
- . five to six national producers with international influence,
- . to support them by specialized national subcontractors
- . design and system integration with Chinese components
- . more efficient building
- . Key systems: large LNG ships, ultra-large container ships, ice breakers, high-end dredging vessels, drilling platforms, specialized support vessels, large cruise ships

- . Key technologies: low-speed diesel engine, intelligent electronic control system, branded deck machinery, sewage treatment devices, desalination devices, high efficiency propeller. automation, energy saving, cabin equipment,...

- . Intermediate products : steel, pipe, cable

Policy:

- . more export tax rebates
- . more support for independent innovation
- . develop insurance and financial services including leasing
- . export credit
- . training
- . backbone enterprises
- . accelerate going out and foreign acquisitions
- . Chinese standards
- . innovation alliances that give priority to the IPR development of the country



State Council, 2013. **国务院关于印发船舶工业加快结构调整促进转型升级实施方案** [Notice of the State Council to Accelerate the Implementation of Structural Adjustment Programs to Promote the Transformation and Upgrading of the Shipbuilding Industry]. Beijing: State Council, Guo Fa number 29, 31 July 2013.

- . to actively expand new space for foreign sales
- . to maintain the international market share
- . to expand the international market share
- . OBOR

MIIT, 2016. **船舶工业** [Shipbuilding Industry]

<http://www.miit.gov.cn/n973401/n1234207/n1234211/c3839706/content.html>

The shipbuilding industry is a strategic industry that provides major equipment for national defense construction, shipping transportation and marine development. It is an important industrial base for safeguarding national security and safeguarding maritime rights and interests. Accelerating the development of shipbuilding industry has important strategic significance for strengthening the modernization of national defense, promoting the development of related industries, revitalizing the equipment manufacturing industry, expanding the export of electromechanical products and solving the employment of labor force.

- . comprehensive strength significantly improved
- . independent innovation capability
- . shipbuilding industry to achieve leapfrog development
- . continue to work on independent innovation and independent design
- . support for backbone industries



MIIT, 2016. 船舶工业深化结构调整加快转型升级行动计划 2016-2020: Action Plan to Deepen and Accelerate the Transformation and Upgrading of the Shipbuilding Industry. Beijing: MIIT.

“By 2020 we will build a shipbuilding system on par with the advanced countries. We want to increase the market share of China high-tech ship exports from 35 to 40 per cent.”

- . Financing research and development: deep-sea, cruise ships, low-speed machines, drilling,
- . Strengthen backbone enterprises
- . Upgrading to deal with excess capacity, not capacity reduction
- . Accelerate the pace of going out and combine it with OBOR
- . Tie energy exploitation, maritime engineering, shipbuilding, and finance
- . Tie food, fishing, shipbuilding, and finance.
- . Encourage backbone enterprises to actively carry out overseas mergers and acquisitions
- . Shape international shipbuilding rules and regulations
- . Increase the direct financing support to the shipping enterprises



85 per cent of China's ship building capacity is state owned

Strategy & linking: fishing, container lines, energy, defense,...

Labour cost

Energy cost about 30 per cent lower than in the EU

Steel prices sometimes 40 per cent below global market prices

Innovation support

Economic diplomacy

Capital

- . Direct financing
- . Indirect financing
- . Customer financing: close to US\$ 50 bn of export credit
- . Next: leasing



2+2艘豪华邮轮新造船备忘录签约仪式

MOA Signing Ceremony of 2+2 Newbuilding Cruise Ships

2016.9.23 天津 Tianjin



“China's cruise ship market expands rapidly. It should be used to advance domestic cruise ship manufacturing, local cruise business, offshore route development: Chinese supplies for China's cruise industry. Strategic thinking and a strategic path, are key so as to shape the future direction of the world cruise industry.” **2016 Action Plan**

