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## **Chinese Surprise Party** 13/06/03

By Anders Kibsgaard Lunde

### **Ever been to a surprise party? The container market is having one right now – courtesy of China – and it's going to be a long one too!**

As freight rates are closing on the millennium levels of 2000, most of the market seems caught off-guard. Though some saw the peak 2002 levels on the Transpacific Eastbound (EB) as a sign of full recovery, others again looked to the global economy and went to the breakers. Expectations now seem more in line, with scrapping just shy of 7,000 TEU for April and May together, while orders for the last to months reached almost 250,000 TEUs.

The FEFC (Far East Freight Council), which controls more than half of the Asia/Europe trade, have announced increases of 22% year-on-year for the main Westbound (WB) leg for the volumes in Q1 this year. PIERS data shows an almost 20% increase for the Transpacific EB in the same period. But for how long can this last?

### **Look to China!**

After their Nov. 10<sup>th</sup> 2001 WTO membership, China is committed to continue the opening up of it's 1.3 billion population marketplace. This will spell the continuation of Chinese industrialization:

- From 1990-2002 the Chinese share of world trade grew from 1.7 to 4.7%
- The average annual growth rate of exports was 14% throughout the 90's
- China's containerized export growth averaged 16% during the 1994-2002 period
- Previous to their entry in the WTO, foreign direct investment (FDI) was limited to manufacturing production either targeted for exports, or for the purpose of replacing imports

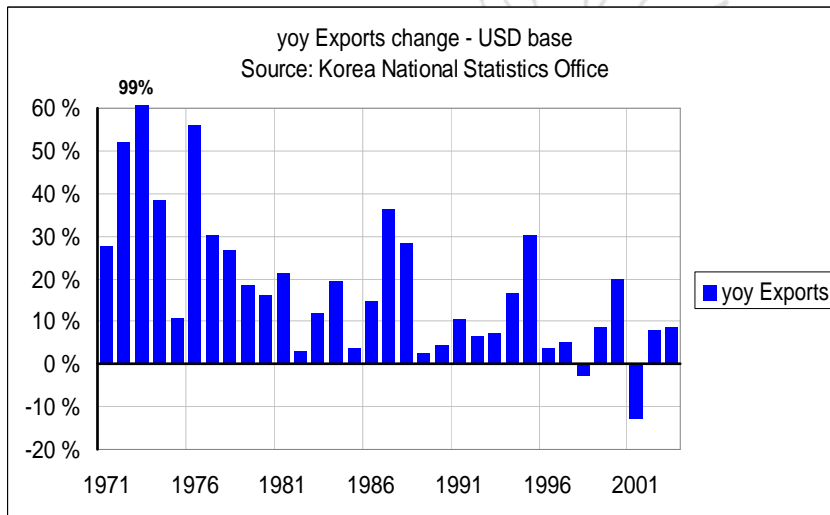
### Accession to WTO:

- China has committed to an average 40% tariff reduction by 2005
- Membership opens up for participation in Horizontal Intra-industry trade
- Efficiency gains through opening up for Mergers & Acquisitions type FDI



**What lies ahead?**

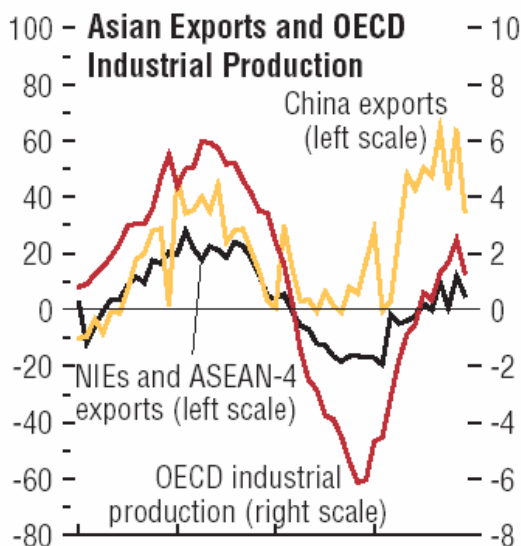
Brokers Howe Robinson recently commented that “events in China may be set to mirror the expansion of Japan in the 1950’s”. Another candidate is South Korea during the 1970’s:



One main difference to the transformation of Japan and South Korea is the openness of today’s global economy. Thus the speed of change may well be quicker. Another is the magnitude, as China started its reform back in 1978 (with the bulk of FDI receipts during the 90’s). Korea’s

extreme growth rates will not be applicable to the more mature Chinese industry. The main lesson is that industrialization doesn’t happen over night, and that China covered possibly half of the way.

With China covering the larger part of Asian boxed exports to both Europe and the US, and generating most of the gain in volumes also, one’s beliefs and expectations on Chinese development should dominate any container market prediction.



**We expect the trend in Global outsourcing to continue, and that China will continue to strengthen its position in world trade on the back of WTO accession.**

**In our June container market forecast of the, our analysis leads to a tight market condition through 2004. Consequently ordering will remain high – at the 100,000 TEUs-a-month-level during the next 1 ½ years.**

**Charter rates will continue climbing – for how high and how long, please call Senior Analyst Anders K. Lunde at +47 22 52 78 23, or send me an e-mail to [anders@viamar.no](mailto:anders@viamar.no) .**

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