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Research on the competitive strategies of China Shipping Container Lines

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Research on the Competitive Strategies of China Shipping Container lines (CSCL)

By

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China

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DECLARATION

I certify that all the material in this dissertation that is not my own work has been identified, and that no material is included for which a degree has previously been conferred on me.

The contents of this dissertation reflect my own personal views, and are not necessarily endorsed by the University.

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Supervised by

Professor Qu Linchi
Shanghai Maritime University

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ABSTRACT

Title of Dissertation: **Research on the Competitive Strategies of China Shipping Container Lines (CSCL)**

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The Chinese shipping companies developed rapidly in the past 20 years with the growing of Chinese economy. Especially after China became the member of WTO, Chinese shipping market gradually opened up while more and more foreign shipping lines entered into the Chinese shipping market, which intensified the competition in the market. Moreover, the Chinese government no longer provided the protection and support to Chinese shipping enterprises following the rules of WTO, which caused substantial decline of Small and Medium sized Chinese shipping enterprises' benefits going down or to an extent of bankruptcy.

However, an open shipping market can provide more opportunities to improve the competitiveness for Chinese shipping companies as well. Chinese shipping companies can learn a lot of management skills and business experience from foreign shipping companies.

This dissertation is a study of the Competitive Strategies of China Shipping Container lines （CSCL）which is the largest Container liner of China. The paper consists of 6 Chapters. The Chapter One introduces the background of research, literature review and the main content. The Chapter Two answers the question as to what the competitive strategy is and introduces theory of the competitive strategy. And it is most important to Chapter Three which the author describes the Competitive Strategies of CSCL and its main competitors in different routes and then find the problems of CSCL's strategies. In the Chapter Four, the paper analyzes the

opportunities and risks that CSCL can meet in the future shipping market. Finally, the paper provides the suggestions about which competitive strategies CSCL can adopt in Chapter Five, which will help CSCL to seize the opportunities in the future. The Chapter 6 is the conclusion of the paper.

KEY WORDS: Competitive strategy, CSCL, Container Shipping Market, Competitive advantage.

LIST OF ABBREVIATIONS

CSCL	China Shipping Container Lines Co., Ltd
COSCO	China Ocean Shipping (Group) Corporation
COSCON	COSCO Container Lines Co., Ltd
MAERSK	Maersk Shipping Lines
APL	American President Lines
NOL	Neptune Orient Lines
WTO	World Trade Organization
IMF	International Monetary Fund
TEU	Twenty-foot Equivalent Unit

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Chapter 1 Introduction

1.1 Background of research

Chinese economy maintains growth with about 10% GDP growth rate for more than 20 years since the Chinese government declared open-policy in 1978, which drove the rapid development of Chinese shipping companies during the same period. Today, China has the fourth biggest merchant fleet in the world and Chinese container lines provide about 10% carrying capacity in the global container shipping market. Now there are some researches concerning the Chinese shipping companies, but very few studies that focus on the competitive strategy of Chinese shipping companies.

In addition, the increase in competition is severe in the container shipping market. The list of the world's top 20 largest shipping lines changes every year. Some companies have been merged and some collapsed. Nowadays, almost all of companies began to pay attention on their competitive strategies for survival and development. Especially for Chinese shipping companies, they need to improve their competitive strategies because they are forced to face the competition with foreign shipping companies especially the big shipping lines.

China Shipping Container Lines (CSCL) established in Shanghai, China in 1997 when CSCL operated just little number of small ships in the Chinese domestic trade routes. But now more than 150 ships of CSCL sail in the each ocean and call at all of main ports of world. In 2005, CSCL was reviewed by the magazine of American Shipper for one of fastest developing shipping companies. But compared with foreign

shipping companies, such as Maersk, MSC and APL, CSCL needs to fill a huge gap in market share, carrying capacity and service quality. In the future, CSCL must improve its competitive strategies to acquire further development.

1.2 Literature review

There have been some researches and some articles published in the past by various authors about the CSCL Company. The author tries to find the key points which have been raised by other authors in regard to CSCL company development. Following are the various studies done in the past about the CSCL.

The study made by Mr. Liu Peng, an officer of Chinese Traffic Department was published in the magazine of CONTAINER TRANSPORT, February 2005 under "Analysis of development of CSCL", demonstrates that China Shipping Container Lines (CSCL) CSCL will increase its fleet by 37 vessels during the period of 2004-2007; the carrying capacity will reach to 434,000 TEU's in total. The article talks about the future development of CSCL by acquisition of additional fleet for the company. But the article doesn't mention about any kind of Strategies of CSCL.

The report made by Mr. Li Yutin in November 2007 "CSCL acquired new development" talks about CSCL and its development in the Chinese Domestic market. The report mainly focuses on CSCL's domestic transportation market, emerging markets and Sea-Railway transportation, which will promote CSCL further development. But the report doesn't give any Strategies for CSCL.

The article "CSCL plans to enter into the TOP 5 world biggest shipping lines in 2010", a newspaper of Shanghai STOCK DAILY, by Mr. Suo Peimin dated October 13th, 2006 describes the gradual growth of CSCL and the ways it adopted to become among the top 5 container lines globally. The report gives only limited information about CSCL's strategy adopted globally.

In the book of Strategic Management, by Micheael A. Hitt, R. Duane Ireland and Robert E. Hoskisson described that competitive strategy is the 'relentless pursuit of victory' concerning strategic thinking, competitiveness, innovation, execution, critical thinking, positioning, and the art of warfare[1].(Strategic management, P259)

Professor Yang limei thinks that the competitive strategy can be divided into three kinds of strategies, namely Offensive Strategy, Defense Strategy and Strategic Retreat Strategy. [2](The magazine of World Shipping, the article of analysis of competitive strategy, Oct 2003, P26) Professor Yang further suggested that the company with strong competitive advantages can adopt offensive strategy; it can further enhance their competitiveness through Merger and or Association with other companies. It is a better choice to choose defense strategy for some companies, who can improve their strength and then counterattack. For companies in crisis, strategic retreat strategy will be chose; they should decisively withdraw from deteriorating market, which enable them to avoid greater losses.

Today's dynamic markets and technologies have called into question the sustainability of competitive advantage. Under pressure to improve productivity, quality, and speed, managers have embraced tools such as TQM, benchmarking, and reengineering. Dramatic operational improvements have resulted, but rarely have these gains translated into sustainable profitability. And gradually, the tools have taken the place of strategy. As managers push to improve on all fronts, they move further away from viable competitive positions. Michael Porter (1980) argues that operational effectiveness, although necessary to superior performance, is not sufficient, because its techniques are easy to imitate[3]. (Competitive Strategy: Techniques for Analyzing

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[1] Michael A. Hitt, R. Duane Ireland, Robert E. Hoskisson, 6th edition, Strategic Management

[2] Yang limei, Oct 2003, the article of analysis of competitive strategy, the magazine of World Shipping,

[3] Michael Porte, 1980 Competitive Strategy: Techniques for Analyzing Industries and Competitors

Industries and Competitors, P76) In contrast, the essence of strategy is choosing a unique and valuable position rooted in systems of activities that are much more difficult to match.

The author in this research makes a detailed analysis of various Competitive Strategies the CSCL has been adopting and gives suggestions as to how CSCL can maintain its top position in the global container market by making use of Strategies analyzed by the author.

1.3 The Framework and Content of the Dissertation

As the biggest shipping line in China, CSCL's competitive strategies are special and successful that support CSCL rapid growth to the sixth biggest international shipping line with in a period of ten years. The author will analyze the competitive strategies of CSCL in the different routes, mainly including China Domestic Trade Routes, Asia-Europe (Mediterranean) Routes, Asia-North America Routes and China- East/ Southeast Asia Routes. And then the author will compare the competitive strategy of CSCL with that of its main competitors in these routes, which can show the problems of CSCL's competitive strategies while indicate a direction that guide CSCL to improve its competitive strategies.

The purpose of this dissertation is to reveal the reasons how CSCL acquired fast development through research on CSCL's competitive strategies, which may provide reference to other Chinese shipping companies. Moreover, the author will try to provide some constructive suggestions to improve the competitive strength of CSCL and promote CSCL further development in the future.

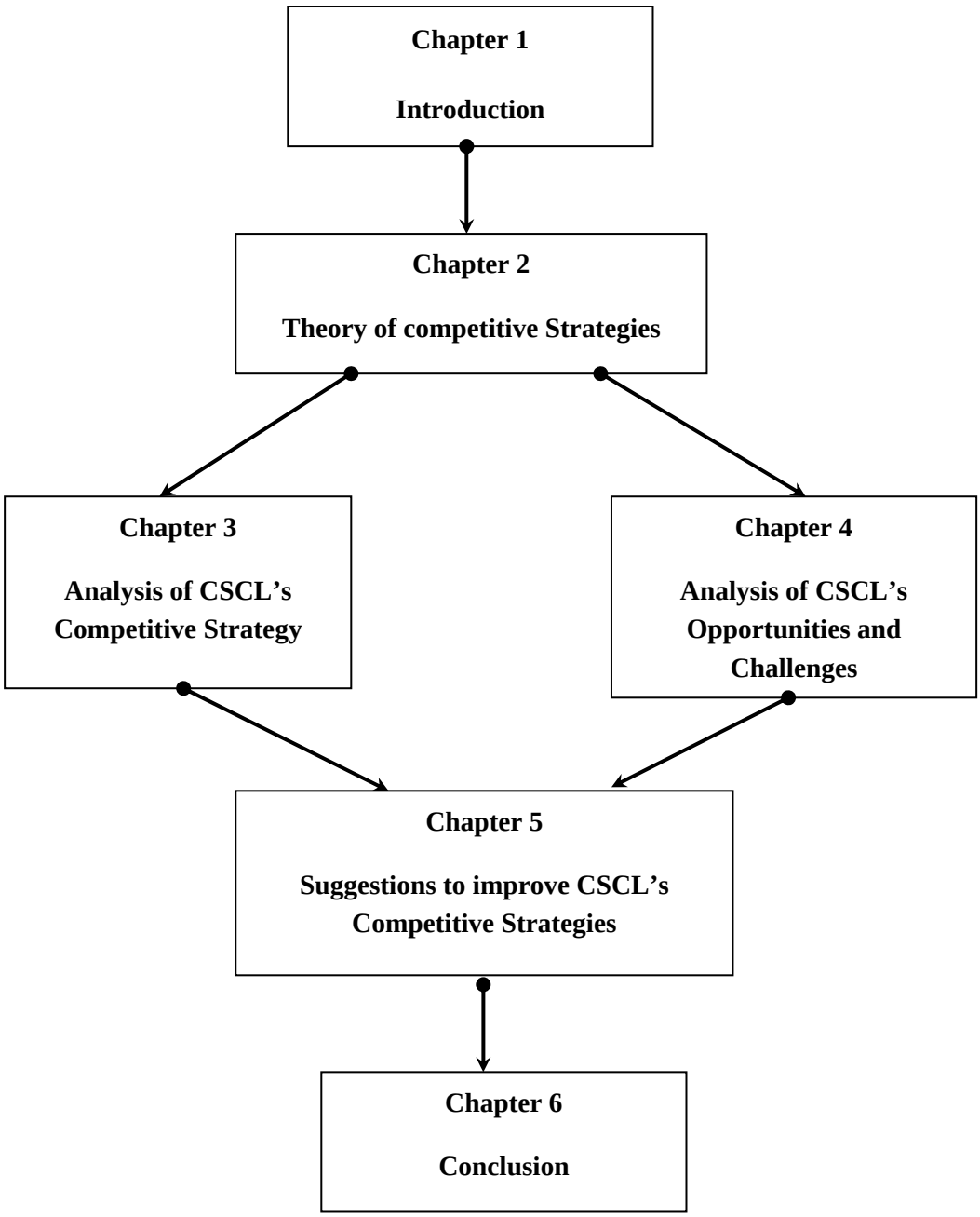


Figure 1: Structure of the Research Paper

Chapter 2 Theory of Competitive Strategies

The globalization and information flow of world economy brought more opportunities for shipping companies' development, while intensified competition in shipping market. Shipping companies cope with the challenges not only from domestic shipping companies, but also from big foreign shipping companies as well. To acquire a certain market share, shipping companies must adopt proper competitive strategies.

In general, the competitive strategies of shipping companies can be divided into three kinds, namely **Offensive Strategy, Defensive Strategy and Strategic Retreat Strategy**. The companies can take the different competitive strategies based on their own market analysis and the trading pattern.

2.1 Offensive Strategy

The big shipping companies with strong competitive advantages can adopt offensive strategy, and they can extend their strength through acquisition, merger and or entering into an alliance, such as Maerskline and APL. The Offensive strategy includes Positive Offensive Strategy, Side Offensive Strategy, Infiltration Strategy and Effective Cooperation Strategy.

2.1.1 Positive Offensive Strategy

Positive offensive Strategy means that the companies should provide the similar or same services as competitors to directly grab the market share from competitors. For example, some Asia shipping lines gradually improved their strength with the rapid development of Asian economy, and they have begun to challenge the position of European traditional shipping line in the routes of Asia-Europe and Asia-North America through providing low-price and high-quality service. Now Asia shipping lines have occupied a big market share in the international container shipping market through taking the positive offensive strategy.

However, the positive offensive strategy will bring a tremendous risk for the shipping companies because their investments are huge. If the shipping companies once fail in the competition, they will suffer great loss. So the positive offensive actually is a very risky strategy unless the company has very powerful strength.

2.1.2 Side Offensive Strategy

Shipping companies can take Side offensive Strategy when they have no enough ability to implement Positive Offensive Strategy. In the strategy, companies can utilize their own special advantage to seize opportunities in market. For example, Nantsing Shipping Company acquired high income through utilized itself geographic advantage to collect a lot of high-profit cargoes in some small ports that are ignored by many big shipping companies.

2.1.3 Infiltration Strategy

Infiltration Strategy can be adopted by shipping companies when their target market is fully occupied by strong rivals or the market is closed due to policy reasons. In this

strategy, the companies can infiltrate the market with small-scale and then develop gradually. When it was time, companies can take large-scale operations. For instance, after China became a member of WTO, many foreign shipping companies rapidly infiltrated China shipping market through cooperation with Chinese enterprises or setting up their own branches in China. Now foreign shipping companies have already occupied a great part of market share in China.

2.1.4 Effective Cooperation Strategy

An outstanding company is not only good at competition, but also good at cooperation. Many shipping companies acquired fast development through all kinds of cooperation. Some shipping companies sharply increased their carrying capacity through acquired other shipping companies, such as Maersk. And others extended service scope through entering into an alliance, such as APL and COSCO. Effective Cooperation Strategy can promote companies improving their competitive advantages.

2.2 Defensive Strategy

Defense Strategy means companies should improve their own strength at first and then seize opportunities to acquire further development. For some shipping companies, it would be a better choice to the defense strategy, which can avoid the direct competition with big shipping companies while accumulate strength.

Shipping companies can increase their defense capability through improving the service's quality and efficiency. The quality of service is an important consideration for customers. So, for attracting customers, each shipping company made an effort to improve the service quality. For example, Maersk provide an advanced information consultation System, each customer can obtain the information about their cargoes' location, status and so on through consulting in the system.

2.3 Strategic Retreat Strategy

The companies that are in crisis should take Strategic Retreat Strategy to decisively withdraw from the present market and shift to other suitable market, which enable them to avoid greater loss. The Strategic Retreat Strategy is beneficial to long-term development of companies though companies can lose a part of benefits.

Chapter 3 Analysis of competitive strategies of CSCL and its Competitors

China shipping Container Lines Co., Ltd (CSCL) is established in 1997 in Shanghai. The development of CSCL is very fast, now it is operating dozens of domestic coastal routes and international container liner services from China to Japan, Korea, Southeast Asia, Australia, Europe, Mediterranean, America, West Africa and Persian Gulf. In these routes, CSCL has achieved good results, but it also faces intense competition. The author will analyze the competition situation and the main problems that CSCL is facing in its main routes comprising of both the domestic routes as well as international routes as mentioned in this chapter.

3.1 Domestic routes

Domestic routes mainly include China's domestic coastal routes and domestic branch line of the Yangtze River[4] and Pearl River[5]. Since the first domestic container liner

4 The Yangtze River or Chang Jiang is the longest river in Asia and the third longest in the world, after the Nile in Africa, and the Amazon in South America. The river is about 6,300 km long and flows from its source in Qinghai Province, eastwards into the East China Sea at Shanghai creating efficient water way for inland transportation.

5 The Pearl River or Zhu Jiang is China's third longest river (2,200 km, after the Yangtze River and the Yellow River), and second largest by volume (after the Yangtze). Located in the south, it flows into the South China Sea between Hong Kong and Macau. Its lower reach forms the Pearl River Delta that is important economic area in China. Many manufacturing bases ore located along the riverside helping in trade.

routes- ‘Shanghai to Xiamen’ began in the end of 1996, the development of China’s domestic container transport was rapid. Domestic trade container throughput of Chinese port grew sharply from 200,000 TEU in 1997 to 9.3 million TEU in 2004, increased by 46 times during 7 years.

Table 1 : Container Throughput of China Domestic Trade

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006
Container Throughput of China Domestic Trade	285.7	666.7	1619.0	2381.0	3619.0	5142.9	9300.0	10381.0	15238.1

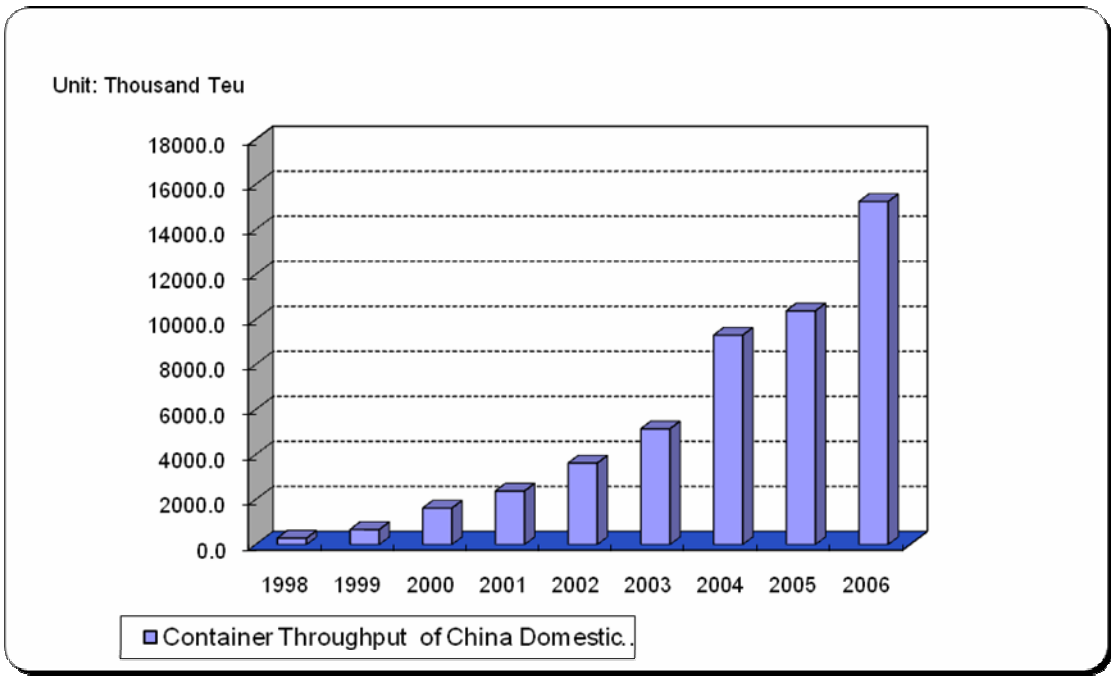


Figure 2: Graphical Analysis of Container Throughput of China Domestic Trade

Source:2007 Yearbook of Chinese Ports

By 2006, domestic trade container throughput has reached to 15.34 million TEU, accounting for 17% of total China ports container throughput.

Table 2: Container Throughput of Chinese Port in 2006

	Container Throughput (TEU)	Increase Rate (%)
The total China's port container throughput	93,000,000	23.8%
China's port foreign trade container throughput	77,660,000	16.8%
China's port domestic trade container throughput	15,340,000	38%

Source: Collecting the data on the website of Chinese Customs.

In recent years, the attraction of domestic shipping market is increasing for the following reasons:

1. Rapid development of Chinese economy directly led to the prosperity of the domestic trade and the increase of demand for the global resources.

2. With the implementation of the policies that are benefiting for expanding domestic demand, industrial restructuring, China Western Development, renewal of the old northeast industrial bases and others, the vast inland region became a hot spot for economic development.

3. The Chinese government strongly advocated maritime transport for reducing occupancy of land, easing the traffic congestion and reducing the pressure on north-south transportation.

4. Many shipping lines took the Hub-spoke Liner Services[6] instead of the End-to-end Liner Service[7], which has increased the demand for the feeder transport services.

5. Domestic transport is restricted in almost all countries, there are only ships with Chinese national flag that can be allowed operating domestic transportation in China, so compared with international routes, the competition of domestic routes is relatively tender, the tariffs are relatively stable, and the profits are higher.

The above factors have created good opportunities for development of domestic container transport.

3.1.1 The competitive strategies of CSCL in domestic routes

At present, there are a total of 14 shipping companies involved in domestic container transport, which opened more than 100 domestic routes. Domestic trade containers transport business is an integral part of the containers shipment business of CSCL. In March 1997, China Shipping Containers Transportation Division began the first coastal domestic trade container liner. After six years of rapid development, the company currently possesses nearly 30 vessels for domestic trade container transportation, with the total container capacity amounting to approximately 32,000 TEU's. In 2000, the transportation volume of the domestic trade containers had reached 500,000 TEU's. CSCL is a dominant player in China with a market share of over 50% in a significant number of domestic ports. Its domestic market share in certain ports is as high as 80%-90%. Despite facing strong challenges from competitors, CSCL's market share is still more than 40% in the domestic shipping market in the first half of 2007, the income from domestic routes increased by 96%,

[6] The Hub-spoke pattern refers to the transshipment practices. Instead of calling at every port, big ships will only load and discharge cargo at a few transshipment centers. Then smaller feeder vessels will go back and forth between the hub port and other ports.
[7] The End-to-End type of liner operation is most common and traditional way of organizing liner services between two markets. Explicitly, ships in an end-to-end arrangement stick to one market.

the volume of cargo grew by 55%, and staying as No.1 in China's domestic shipping market.

Table 3 : Volume and Revenue of CSCL

	2004	2005	2006	1H2007
Volume of CSCL Cargo in Chinese domestic trading routes	1100000.00	1400000.00	1700000.00	1140000.00
Revenue of CSCL in Chinese domestic Trading routes	1555555.56	1777777.78	2027777.78	1472222.22

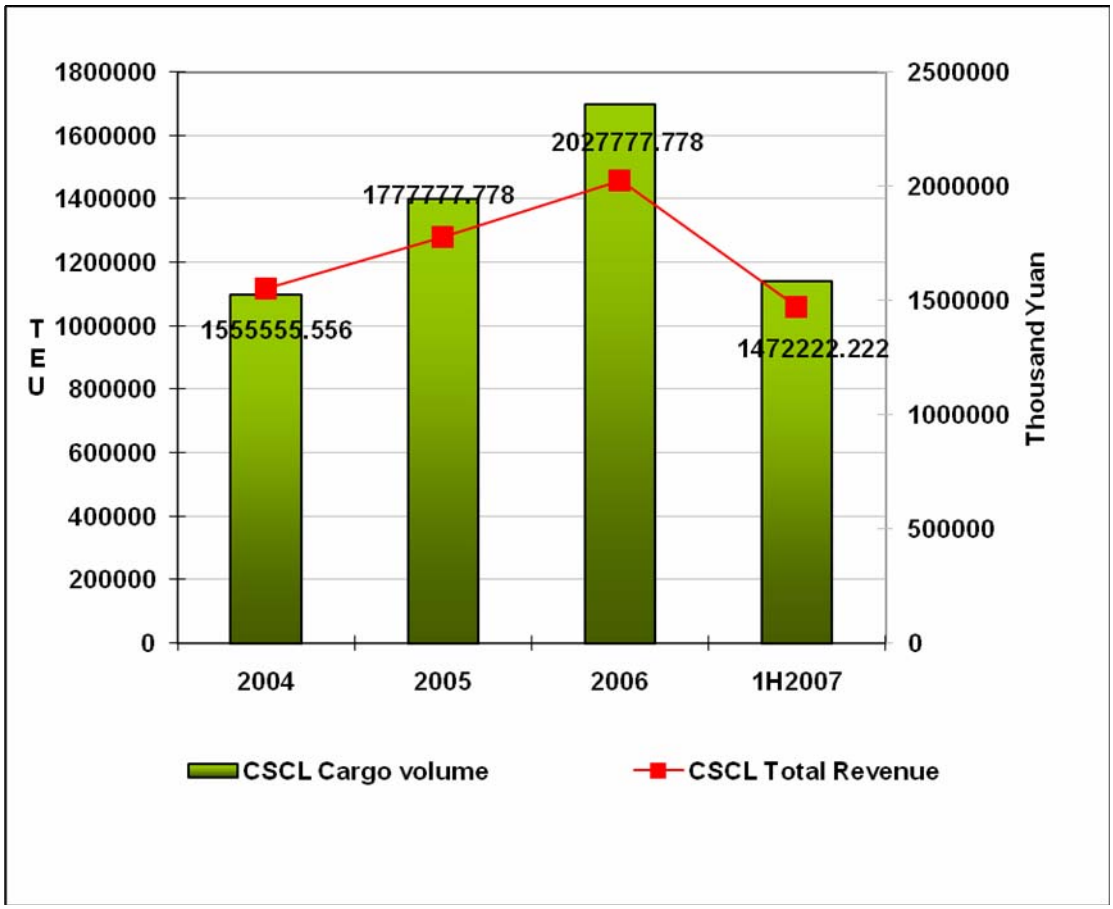


Figure 3: Graphical Analysis of CSCL's Volume of Cargo & Revenue

Source: Data obtained from the website of CSCL

CSCL adopts the following major competitive strategies in the domestic routes:

1. Effectively controlling Investment Cost.

CSCL time chartered 19 container ships for 3 years for a price which was almost two-third of the original price in 1997 when the shipping market was at its low. While CSCL converted more than 40 bulk carriers into container ships, which enhanced in reducing the investment required in acquiring new buildings. This is the most beneficial and effective strategy adopted by CSCL when compared to its rivals.

2. Constantly expanding carrying capacity

Until now, CSCL has engaged more than 40 vessels in domestic trade, including eight large container vessels with the capacity of more than 4,250 TEU's, the total capacity is over 60,000 TEU's in domestic trade routes, meeting the demands of the domestic shipping market. Modern container vessels can reduce the operating cost and improve the competitive advantages because the speed of the ships is faster and they can load more cargoes due to higher carrying capacity.

3. CSCL's fleet registered in China

According to the regulations by the Chinese government, the vessels which are registered in China can be employed in the domestic transportation, and there is more than 50% of CSCL's fleet registered in China. The advantage for CSCL is that it can engage more vessels at any period of time depending upon the domestic market demand.

4. Improving the layout of routes

At present, CSCL operates 17 domestic trade routes that cover 30 different ports, which includes following routes: Tianjin to Guangzhou, Yinkou to Guangzhou, Dalian to Nansha, Shekou to Lianyungang, etc, and several river feeders, involving Yangtze River delta and Pearl River delta regions.

Figure 4: CSCL's domestic routes

Source: Collecting the data from the website of CSCL

5. Improving the quality of services

CSCL established a number of domestic routes with high quality services. Compared with normal routes, these routes have accurate schedule, large ships, high density of calls, calling more ports. The above Strategy adopted by CSCL helps in less transshipment which is a beneficial factor for the customers.

6. Development of Ocean-Railway transportation and opening up new markets

The resources are mostly concentrated in north China, but South China is the main consumer of those resources. The transportation is mainly from north china to south china and is the main characteristic of China transportation. CSCL developed the Ocean-Railway transportation through cooperation with China Railway Company. Ocean-Railway transportation is not only a comprehensive low-cost, but also obvious advantage in the speed of transport. Now, CSCL transports cotton from Xinjiang (N. China) to Guangxi (S. China) and sugar is transported from Guangdong (S. China) to Dalian (N. China) and other places through Ocean-Railway transportation.

3.1.2 The Competitive Strategies of Main Competitors of CSCL in the Domestic routes

Following the trend of CSCL, China's various shipping companies invested in domestic trade container shipping, including COSCON, Sinotrans, Changjiang Shipping, Nantsing and other major liner companies, which have also established the domestic shipping networks in China and actively developed domestic trade container transport.

In 2000, COSCON strengthened investment in the China's domestic coastal transport market, COSCON sharply increased by eight container ships during eight months time in domestic coastal routes, so that carrying capacity increased by 200 % compared with that in 1999. With very large container ships entering into the international shipping market, COSCON will engage small and medium-sized container ships from international routes to domestic routes.

Moreover, COSCON is also constantly upgrading the quality of services. In 2005, COSCON launched "faster route between two ports" service in the coastal trade zone, this service was upgraded based on the former routes of the Huangpu, Shekou port to

the northern ports that ships called at 3-4 northern ports, the delivery time being more than 10-12 days But now, in the "faster route between two ports" service, ships just call at 2 northern ports which reduces the delivery time by 40% which is less than a week.

In Northern ports like Qingdao and Tianjin, COSCON expanded its market share through cooperation with SITC.

In particular, COSCON began to increase the investment in the Yangtze River shipping. COSCON jointly established a new container shipping company with Changjiang Shipping in September 1997, which is responsible for transportation in Yangtze River Routes. COSCON rapidly increased its market share in the Yangtze River shipping market through cooperation with Changjiang Shipping.

Besides, COSCON take a flexible pricing strategy and marketing strategy for competition in the Yangtze River container transportation market, and established forwarding companies in the ports of Nanjing, Jiaxing, Taicang, Nantong, Sichuan, Wuhu, Zhenjiang, Zhangjiagang, etc, which collected a lot of cargoes from big companies, such as Changhong[8], PSA Automobile Company (China), Swell, Sharp. According to the statistics, COSCON transported a total of 92,534 TEU cargoes in the Yangtze River during Jan-Aug in 2007, increased by 40.2% compared with the same period last year.

Although COSCON has the biggest market share that is 17% in the Yangtze River, COSCON is planning to engage more ships into the domestic routes. At the end of 2007, COSCON operates in 17 domestic routes with 57 ships that provide 4,300 TEU's carrying capacity of each vessel calling at 29 ports. At the same time, the utilization rate improved from 50% in 2006 to over 70% in 2007.

8 Changhong is now one of the largest Chinese consumer electronics providers specializing in R&D, manufacturing and marketing of consumer electronics products.

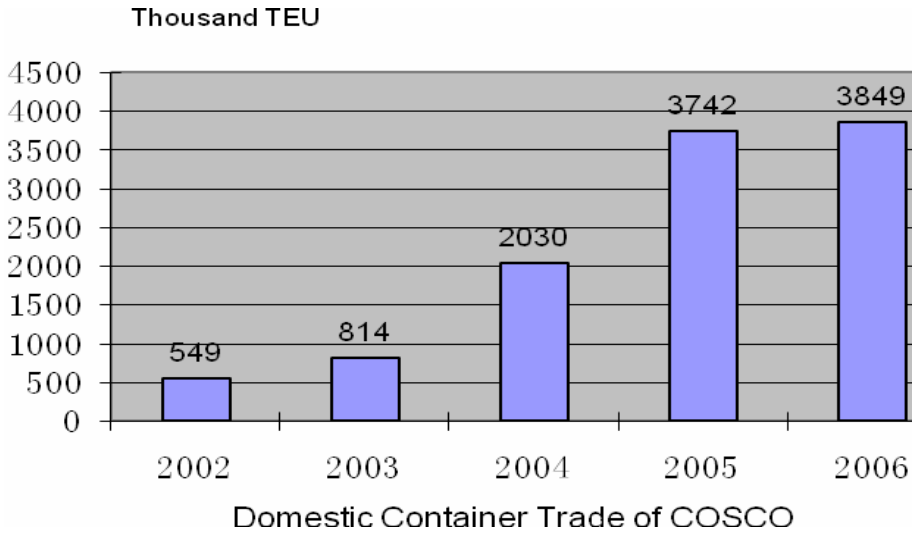


Figure 5: Domestic Container Trade of COSCON

Source: Collecting the data from the website of COSCON

Another main shipping company is Nantsing Lines in domestic shipping market, the market share of Nantsing is close and even more than CSCL in some ports of southern China and the Yangtze River. For avoiding the positive competition with CSCL, Nantsing selected some ports that the ships of CSCL did not call, opened new routes, such as the ports of Wenzhou, Fangcun, Zhongshan, and Taizhou. In the route of "Shanghai to South China", Nantsing provides the service with low-price, timely and flexible.

On Jan. 8th, 1997, Nantsing made an important plan that built a "T" shape waterway transportation network which covers the coastal areas and the lower regions of Yangtze River with Shanghai as the hinge port; utilizing all kinds of resources in market mode; entering market at the price of bulk transportation; expanding domestic container transportation on a large scale. By starting this plan, Nantsing took the lead in providing domestic waterway container transportation according to international

standards, filling a blank part of domestic waterway transportation. During the recent years, it has been one of the top three carriers when the number of ships and overall transportation volumes are considered. In 2006, Nantsing stood at second position behind CSCL for its operation scale of 780,000 standard containers in this field, and its market share is more than 25%.

Nantsing is always devoted to the establishment of waterway container transportation network. Through a ten-year plan, up to the end of 2006, it had formed a network which connects the coastal areas in the north and those in the south, links Yangtze River and Pearl River. In this network, main routes and branch routes are associated with each other. The features of this network are high density, high coverage, high reliability and controllability. Nantsing has offices and branches in more than thirty ports and inland cities, Shenyang in the extreme north, Haikou in the extreme south, Chongqing in the extreme west, and Shanghai in the extreme east.

Except CSCL, COSCON, Nantsing, there are also some local shipping companies, such as Tianjin Shipping, Qingdao Shipping, Dalian Shipping, SITC, Changjiang Shipping, etc. Because of the strength of these companies limited, their strategies are generally operating certain routes. In these routes, these companies give the three large companies a certain competitive pressure.

According to the statistics of Tianjin Port in 2002, CSCL's market share was 49%, COSCON’s was 28 percent, and the rest of market carved up by Nantsing, Tianjin Shipping, Qingdao Shipping and other companies. This also reflects the basic pattern of the domestic shipping market.

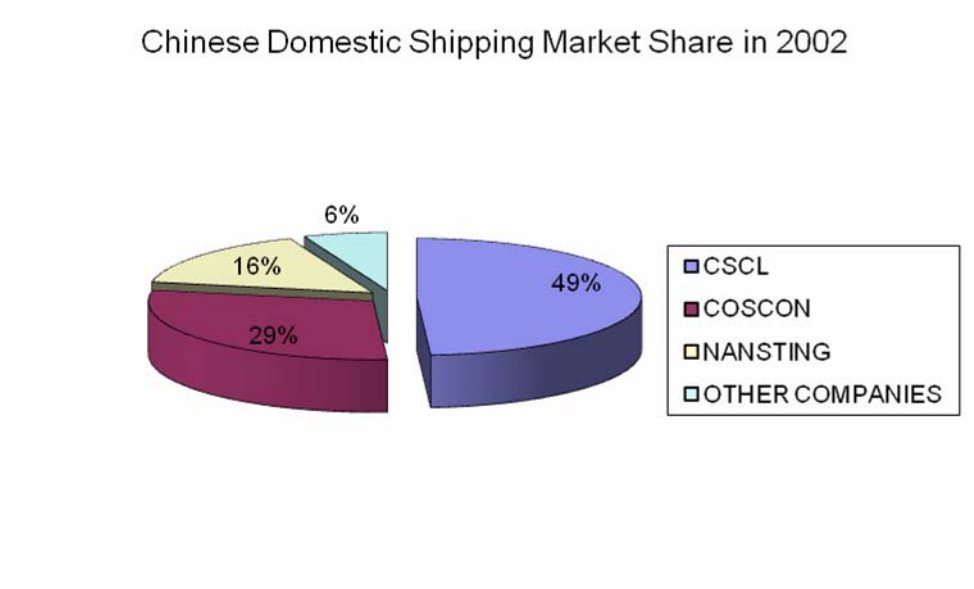


Figure 6 : Graphical representation of Chinese Domestic Market Share

Source: Collecting the data from 21st Century Economy Report

Table 4: Top 5 Chinese Container Operators Domestic market share in 2002

Rank	Company	Market Share
1	CSCL	49%
2	COSCON	29%
3	NANSTING	16%
4	TIANJIN SHIPPING	<4%
5	QINGDAO SHIPPING	<2%

Source: Collecting the data from 21st Century Economy Report

3.1.3 The problems that CSCL faced in the domestic routes

Despite CSCL occupied the largest market share in the domestic routes till now, there is a trend that the market share of CSCL has decreased by 30% from more than 70% in 1998 to about 40% now. So, the author will analyze what problems CSCL faced in the development of domestic trade container transport in the following.

1. Aging of ships

Many ships in the CSCL's domestic routes were devoted from CSCL's international routes or converted from old bulk ships. So, these ships are generally old with poor performance, slower speed, High fuel consumption and High failure rate, which often lead to delay and cargo loss. So, aging of ships increased the cost and reduced the quality of service for CSCL.

2. Backward Information Construction

When large international liner companies are using information technology to increase efficiency and quality of service, CSCL did not even use any basic information system in the domestic transportation. The data exchanges were in manual way between headquarters and branch offices, which made the high error rate and low efficiency. Customers cannot also get any information about the goods and transport situation from CSCL on time.

3. Incomplete layout of routes

CSCL's domestic routes only covered in China coastal and a few major ports of inland, such as Shanghai, Tianjin, Dalian, Qinhuangdao, Qingdao, Lianyungang, Nanjing, and so on. Incomplete layout of routes caused narrow range of services, and it is difficult to provide customers direct services.

4. Inadequate investment in inland rivers

Most of CSCL's domestic routes concentrated in the China coastal region, the routes are very few in the Yangtze River, Zhujiang River valley. At present, CSCL invested only 11 barges in the Yangtze River with less than 1000 TEU. CSCL also did not establish the lines in the Yangtze River because of lack of cargo source.

5. Inadequate capacity of collecting cargo

CSCL faces the intense competition in the domestic transport market that is not only from other shipping lines, but also from bulk carriers, railways and road transport enterprises. Due to the lack of effective cooperation with inland manufactories and forwarding companies, the capacity of CSCL's collecting cargoes is obviously insufficient in the domestic shipping market.

6. Single cargo source

Because the domestic container shipping service of CSCL cannot meet the requirements of high-value-added service that require accurate time, speed, high-frequency, wide coverage. So, CSCL can only collect the low-value cargoes that do not need the high-quality services.

3.2 International routes

International container transport industry has rapidly developed in the past 50 years.

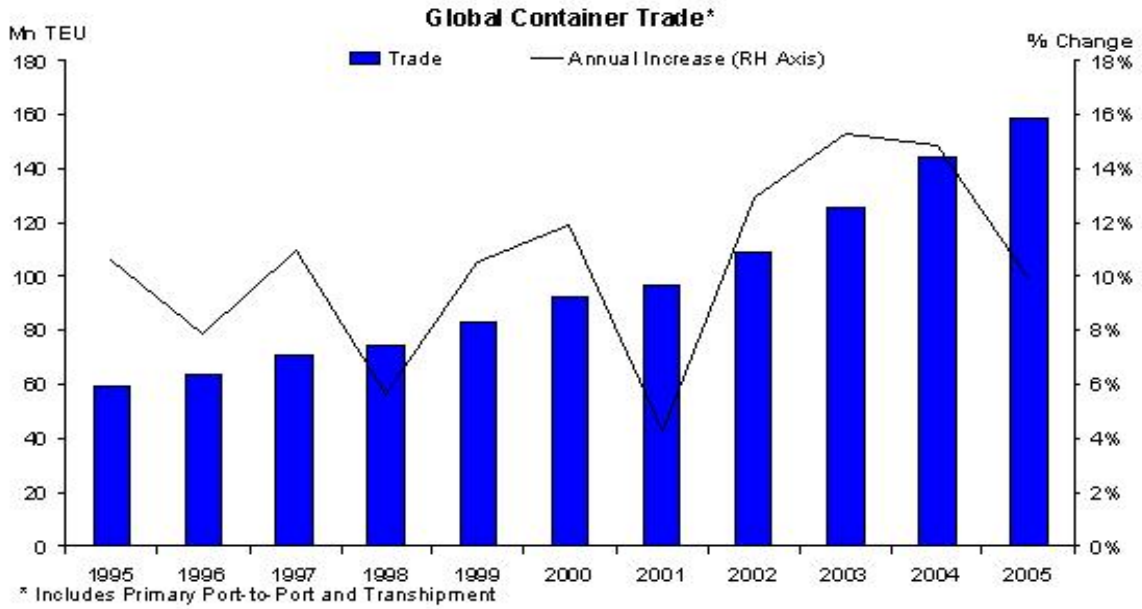


Figure 7: Global Container Trade and Annual Increase rate

Source: Collecting the data from the website of Chinese Ministry of Communications

According to the statistics of Axsmarine, today, there are 5,982 ships to provide the carrying capacity of 12,263,408 TEU for container transport globally, including 4,447 fully cellular container ships with the capacity of 11,492,020 TEU.

Table 5 : Global Container Growth Rate and Forecast

Year	1996	1997	1998	1999	2000	2001	2002	2003
TEU's in '000's	3272	3765	4206	4416	4845	5430	6002	6537
Growth Rate	13.5%	15.6%	11.5%	5.0%	9.5%	12.0%	10.5%	8.5%

Year	2004	2005	2006	2007	2008	2009	2010	2011
TEU's in '000's	7177	8117	9458	10720	12255	13938	15593	16565
Growth Rate	9.5%	13.0%	16.8%	13.5%	14.0%	13.5%	11.9%	6.5%

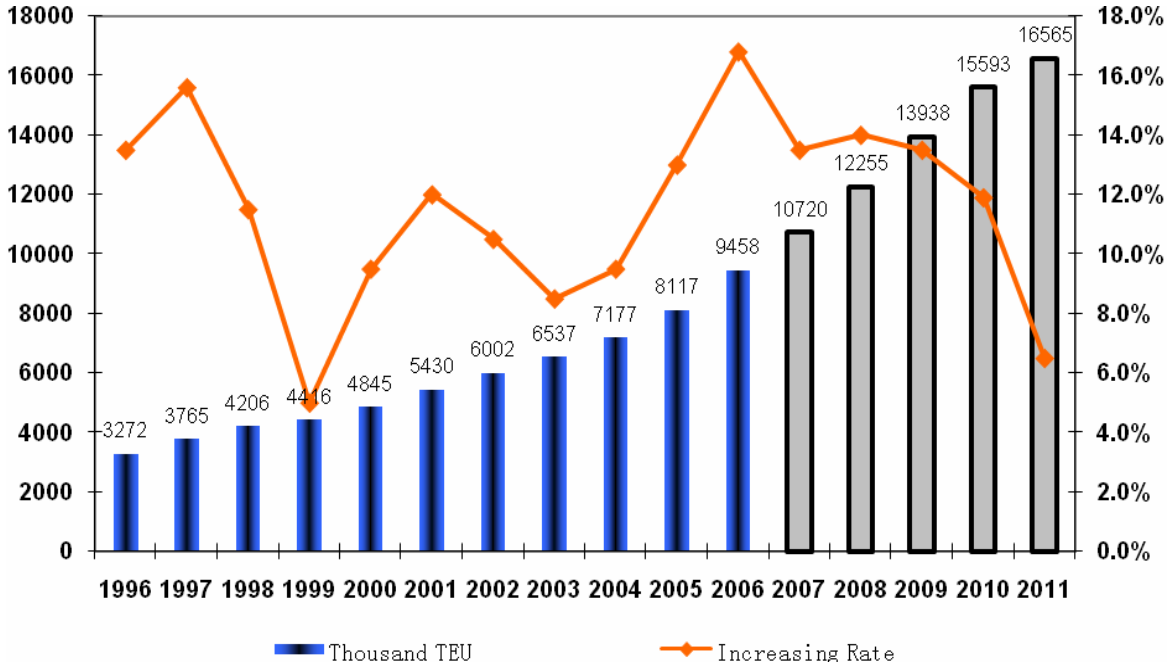


Figure 8: Graphical Analysis of Global Container transportation growth

Source: Collecting the data from the website of Shanghai Port

The carrying capacity of Top 30 shipping lines is 10,754,347TEU's in total, which account for 87.7% of total world capacity. Top 3 shipping lines, including Maersk, MSC and CMA-CGM, provide 34.1% carrying capacity in the global container shipping market. Top 5 provide 43.6% capacity. And Top 10 provide 60.5%. It is estimated that Top 10 shipping lines will control 80% or more carrying capacity in the

future. Therefore, it can be said that the competition is mainly between the major liner companies in international container shipping market.

AXS-Alphaliner TOP 100

Operated fleets as per 14 May 2008

THE TOP 100 LEAGUE

> The percentage shown on the left of each bar represents the operator's share of the world liner fleet in TEU terms.

> The light coloured bar on the right represents the current orderbook (firm orders).

Rnk	Operator	TEU	Share
1	APM-Maersk	2,001,195	16.3%
2	Mediterranean Shg Co	1,281,600	10.5%
3	CMA CGM Group	922,734	7.5%
4	Evergreen Line	628,403	5.1%
5	Hapag-Lloyd	506,801	4.1%
6	COSCO Container L.	453,074	3.7%
7	CSCL	423,841	3.5%
8	APL	417,495	3.4%
9	NYK	408,224	3.3%
10	MOL	376,578	3.1%
11	Hanjin / Senator	360,387	2.9%
12	OOCL	360,293	2.9%
13	K Line	309,444	2.5%
14	Zim	290,884	2.4%
15	Yang Ming Line	283,499	2.3%
16	Hamburg Süd Group	280,101	2.3%
17	CSAV Group	278,113	2.3%
18	Hyundai M.M.	241,925	2.0%
19	PIL (Pacific Int. Line)	179,116	1.5%
20	Wan Hai Lines	144,200	1.2%
21	UASC	119,971	1.0%
22	MISC Berhad	92,970	0.8%
23	IRIS Lines	78,004	0.6%
24	RCL (Regional Container L.)	58,111	0.5%
25	Grimaldi (Napoli)	54,230	0.4%
26	Sea Consortium	45,787	0.4%
27	CCNI	42,837	0.3%
28	TS Lines	41,477	0.3%
29	Maruba + CLAN	39,020	0.3%
30	Swire Shipping	34,060	0.3%

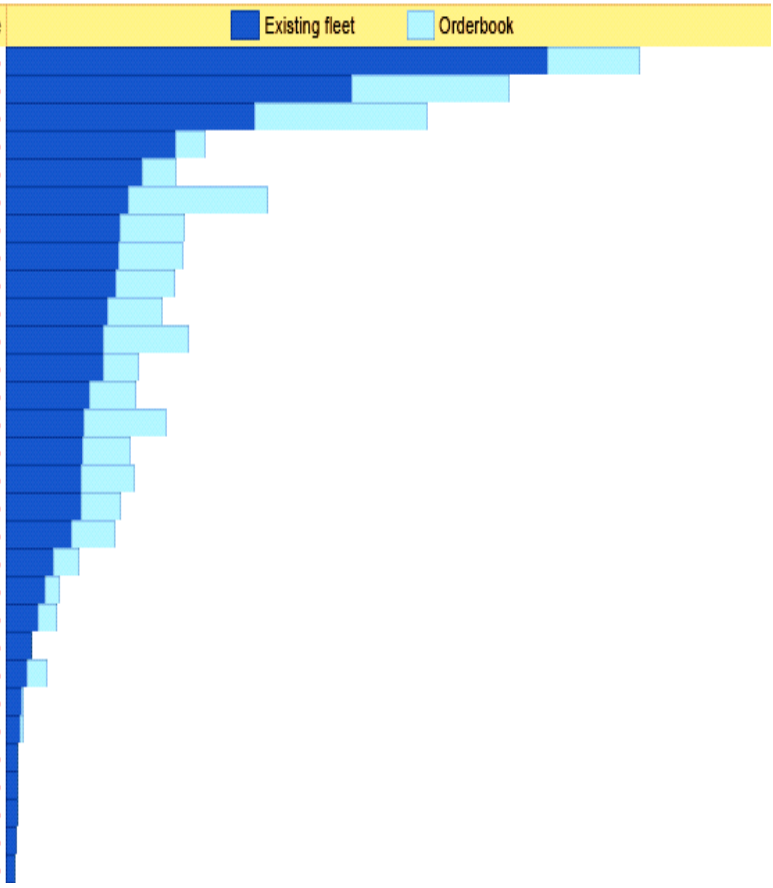


Figure 9: Top 30 container operators

Source: Collecting the data from the website of Axsmarine

3.2.1 The competitive strategies of CSCL in international routes

The revenue from international transport occupies a substantial proportion in the CSCL's total revenue. The volume of cargo in international routes accounted for more than 60% of CSCL's total cargo volume from 2004 to the first half of 2007. The income from the international routes accounted for more than 80%of total revenue during the same period. So, it can be said that international shipping is the core business of CSCL.

Table 6 : The Proportion of Cargo Volume in Different Routes of CSCL

	2004	2005	2006	1H2007
Pacific Line	**24%**	**24%**	**25%**	**23%**
Asia-Euro Line	**24%**	**27%**	**24%**	**22%**
Asia-Pacific Line	**18%**	**17%**	**18%**	**18%**
China Domestic	**30%**	**31%**	**30%**	**34%**
Other Line	**3%**	**2%**	**2%**	**3%**
	99%	**101%**	**99%**	**100%**

Source: Collecting the data from the website of CSCL

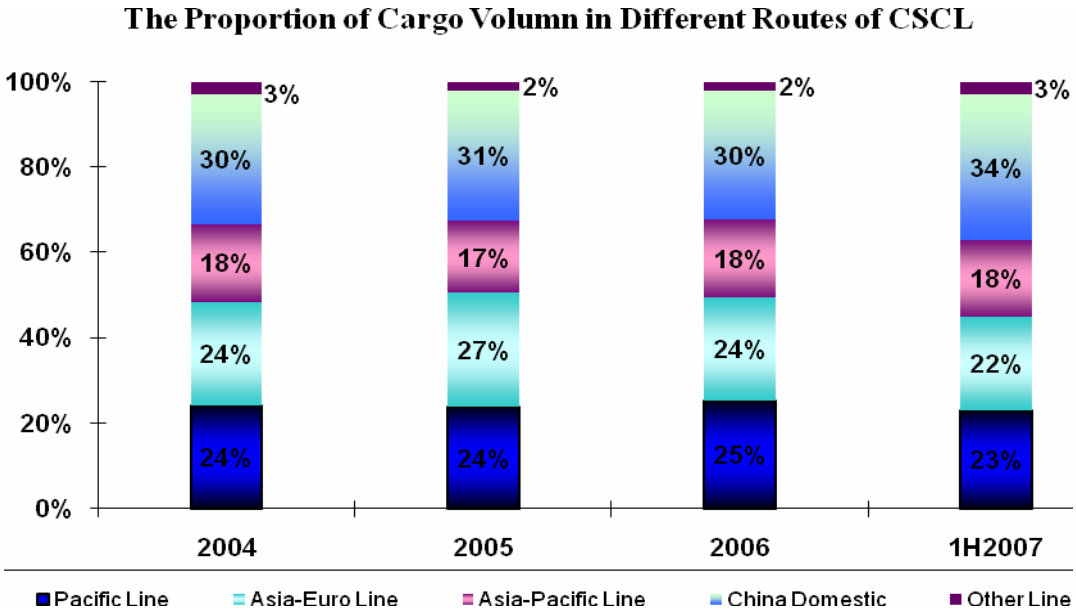


Figure 10 : Graphical Analysis of the Proportion of Cargo Volume in Different Routes of CSCL

Source: Collecting the data from the website of CSCL

Table 7 : The Proportion of Cargo Revenue in Different Routes of CSCL

	2004	2005	2006	1H2007
Pacific Line	**35%**	**42%**	**45%**	**39%**
Asia-Euro Line	**37%**	**35%**	**29%**	**31%**
Asia-Pacific Line	**13%**	**11%**	**13%**	**13%**
China Domestic	**7%**	**6%**	**7%**	**8%**
Other Line	**8%**	**5%**	**7%**	**8%**

Source: Collecting the data from the website of CSCL

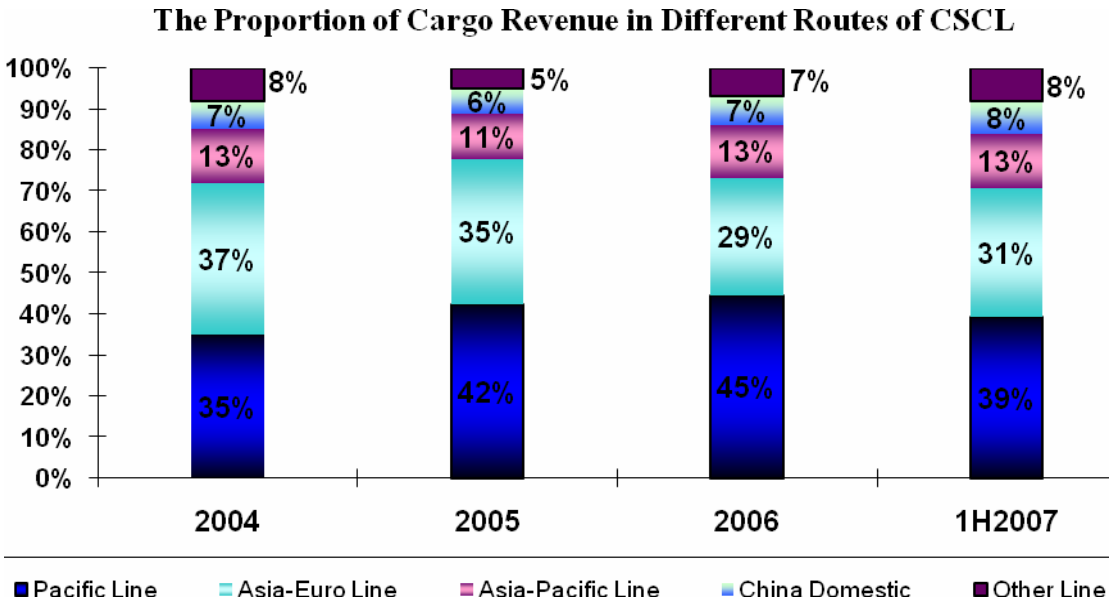


Figure 11 : Graphical Analysis of the Proportion of Cargo Revenue in Different Routes of CSCL

Source: Collecting the data from the website of CSCL

CSCL has emerged as a major global player in past eight years. It is currently ranked sixth largest container shipping company in terms of operating capacity. As of June 2008, CSCL has a young and modern fleet that comprises of 150 vessels with a total carrying capacity of 451,765 TEU's, among which over 65 of them had capacities of over 4,000 TEU's. The 74 international routes of CSCL cover 104 major ports of the world. Fast development depends on the successful competitive strategy of CSCL.

CSCL mainly adopted the following competitive strategies:

1. Constantly expanding size of fleet

The carrying capacity of CSCL increased to 427,107 TEU's in June 2007 from 206,327 TEU's in the beginning of 2004. And the amount of containers rose from 451,529 TEU's to 826,162 TEU's during the same period. Until June 30, 2007, CSCL operated 151 container vessels, including 79 own ships and 72 chartered vessels, and the average age of ships is just 7.6 years. As of June 30, 2007, CSCL ordered 17 container ships in total, including the four 4,250 TEU's container ships, four 8,350 TEU's container ships and eight 13,300 TEU's container ships, which the total capacity is 166,050 TEU's, accounting for 36.73 % of CSCL's existing capacity, while CSCL charter 15 container ships in total, which the total capacity is 38,306 TEU's. These vessels will be delivered in the year of 2008 till 2012. Among them four 4,250 TEU's vessels will be engaged in China-Australia route or China domestic routes, four 8,530 TEU's ships will be engaged in the routes of Asia-Europe or the Asia-Americas, eight 13,300 TEU's ships plans to invest Asia-European routes. These ships will increase the carrying capacity of CSCL. By the year of 2011, CSCL will have more than 180 vessels with a total carrying capacity of over 630,000 TEU's.

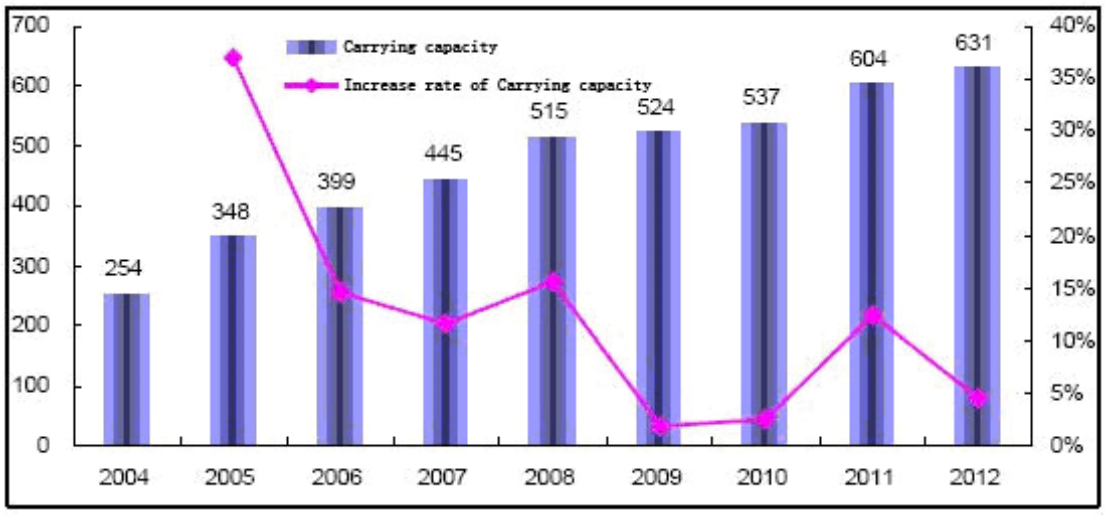


Figure 12 : Graphical representation of the changing trend of CSCL's carrying capacity

Source: Collecting the data from the website of CSCL

2. Constantly optimizing the structure of the fleet

CSCL has a young and modern fleet. The average age of vessels is 7.6 years that is further less than the average age of global container fleets which stands at 11.5 years. The ships with less than 4 years age provided 65% carrying capacity. The average age of vessels with capacity of more than 4,000 TEU's is 3.77 years which occupied 82.86% of the whole operating capacity. And the average age of almost all types of CSCL's ships is less than the world average age of vessels. Such a young and energetic fleet provides CSCL with additional competitive advantage to stay at the industry forefront.

At present, CSCL has 61 large ships with the capacity of 4,000 TEU's, accounting for 40.4 % of the total number of ships, which provide capacity of 340,658 TEU's in total, accounting for 79.8% of total carrying capacity. Moreover, there are 26% ships that are the size of above 7000 TEU's vessels in CSCL's fleet. But the average proportion of this size of ship is only 14 percent in the world.

Table 8: Carrying capacity of CSCL

Size	Number	Proportion of number	Capacity(TEU)	Proportion of capacity	Average age
<1000TEU	49	32.45%	17,085	4.00%	10.54
1000-2000TEU	27	17.88%	34,252	8.02%	12.09
2000-3000TEU	14	9.27%	35,112	8.22%	8.65
3000-4000TEU	-	-	-	-	-
4000-5000ETU	31	20.53%	129,369	30.29%	2.92
5000-7000TEU	18	11.92%	101,945	23.87%	4.22
>7000TEU	12	7.95%	109,344	25.60%	1.46
Total	151	100%	427,107	100%	7.6

Source: Collecting the data from the website of CSCL

A young and large fleet improved CSCL's ships operating efficiency and increased the speed of shipping and reduced the cost of ship repair and transport. Moreover, CSCL ordered 17 new vessels and chartered 15 new vessels at the time when shipping market was its low. In particular, CSCL recently ordered eight 13,300 TEU's container ships in South Korea's Samsung shipbuilding, the total value of orders reached to 10.6 billion RMB. With the delivery of these new ships, large container ships will occupy greater proportion in the fleet of CSCL, which will further optimize the occupancy. According to the plan of orders, the growth rate of CSCL's total

carrying capacity is respectively 10.93% in 2008, 0.89% in 2009, 2.77% in 2010, 13.48% in 2011 and 4.75% in 2012. We can find that the growth rate of number of ships is less than that of carrying capacity, which means the proportion of large ships is increasing in the CSCL's fleet.

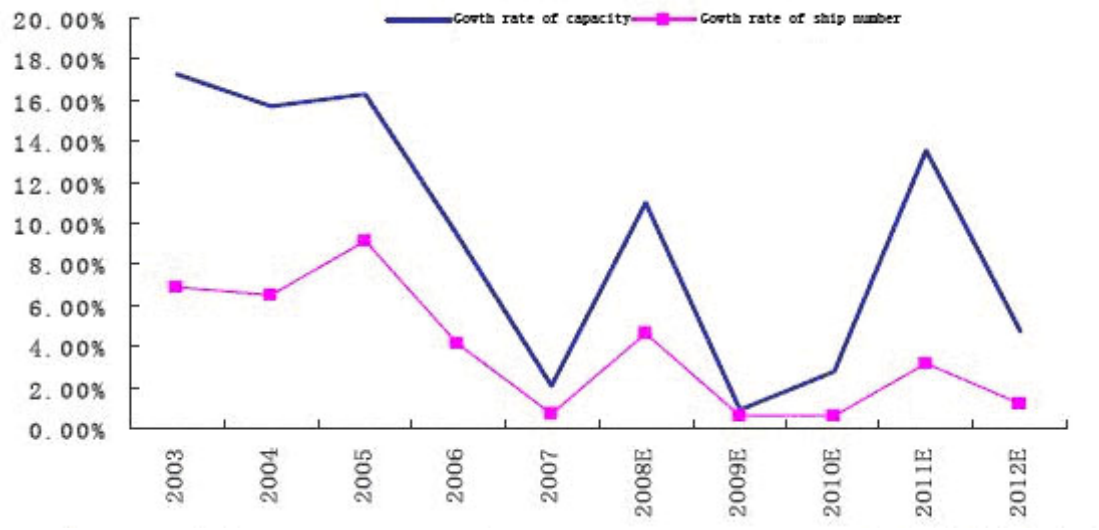


Figure 13: CSCL Fleet Increase Trend

Source: Collecting the data from the website of CSCL

3. Effective cost controlling

CSCL strategy in reducing the fixed cost and variable costs of ship operation through adopting all kinds of effective competitive strategy forms an important driving force to make CSCL rapid development.

- **Reduction of the Fixed Cost:**

In ship building business, CSCL always ordered or chartered a large number of new ships at a relatively lower price when the shipping market is at low level through

accurate judgment of the market trend. CSCL ordered a lot of container ships in the recent industry slump period (2000-2002), which accounted for 60% of the CSCL's total capacity (about 247,000 TEU's). These ships were just delivered in time period when the shortage of container ships was higher (2004-2005). During the period 2004-2007, the total investment in shipbuilding of CSCL was just 9.962 billion RBM. The price of the 4250 TEU's, 8080TEU's and the 9580 TEU's container ships that CSCL ordered in 2002 are respectively 43 million U.S. dollars, 73 million U.S. dollars and 83 million U.S. dollars, but until July 2004, the price of these sizes of ships have increased to 50 million U.S. dollars, 85 million U.S. dollars and 108 million U.S. dollars. According to Morgan Stanley[9]'s analysis, 21 vessels (19 +2 vessels right to choose) that CSCL invested in the period of 2000-2002 can saved at least 2.6 billion RMB. 12 long-term chartered container ships can save nearly 1 billion RBM each year in the time charter rates after 2007 for CSCL. In addition, CSCL purchased or chartered 125,000 containers (equivalent to 3 / 4 of the annual demand) in the beginning of 2004 to, the price was 1,600 U.S. dollars per one, the rent was 0.6 U.S. dollars / day, but now the price has respectively grown to over 1,900 U.S. dollars and 0.9 U.S. dollars / day.

- **Reduction of Variable Cost**

CSCL reduced the variable cost through efficient management and suitable strategies. CSCL deployed the ships in different routes based on market conditions. Moreover, CSCL arranged most transit in China's port because of relatively low fee of the China's port, which can reduce the transit costs. In addition, fuel costs accounted for around 20% of CSCL's operation cost. CSCL controlled fuel cost by increasing fuel

9 Morgan Stanley is an investment banking and global financial services corporation headquartered in New York City. It serves a diversified group of corporations, governments, financial institutions, and individuals.

storage, choosing ports with low bunker prices, sailing in low speed and other measures.

Young and large vessels can effectively reduce maintenance costs and unit cost. Taking an example of the European routes, the unit cost of 9600 TEU's vessels is just half that of 2500 TEU vessels. The average unit cost of CSCL is 4,637 RMB in the first half of 2007, which is the lowest in all of Chinese shipping lines.

4. Low Price Strategy

CSCL has a lower cost advantage through optimizing the structure of the fleet and effective cost controlling, compared with other shipping lines. So, CSCL can give customers more favorable price. For example, in the route of Shanghai- Los Angeles, the CSCL's tariff is 1,016 U.S. dollars / TEU, which is less than 1,546 U.S. dollars / TEU of APL and about 1,100 U.S. dollars / TEU of Hanjin.

5. Globalized the layout of routes

CSCL now is operating dozens of domestic coastal routes and international container liner services from China to Japan, Korea, Southeast Asia, Australia, Europe, Mediterranean, America, West Africa and Persian Gulf. With 16 vessels in operation, China Shipping's Far East-North America lines cover 8 base ports and over 40 inland points of North America. The company has formed a net work covering the main ports of China, Japan, Korea, and Southeast Asia. Its Far East-Europe/Mediterranean line is now serving almost all china base ports, with big capacity as compared with other carriers is also a dominant player in China with a share of over 50% in a significant number of domestic ports. In the international shipping market, CSCL provided the container liner transport services covering the Americas, Europe / Mediterranean, Australia, East Asia / Southeast Asia and the Middle East market.

Among them there are 18 American routes, 11 European / Mediterranean routes, 39 Asia-Pacific routes and 6 West Asia routes.

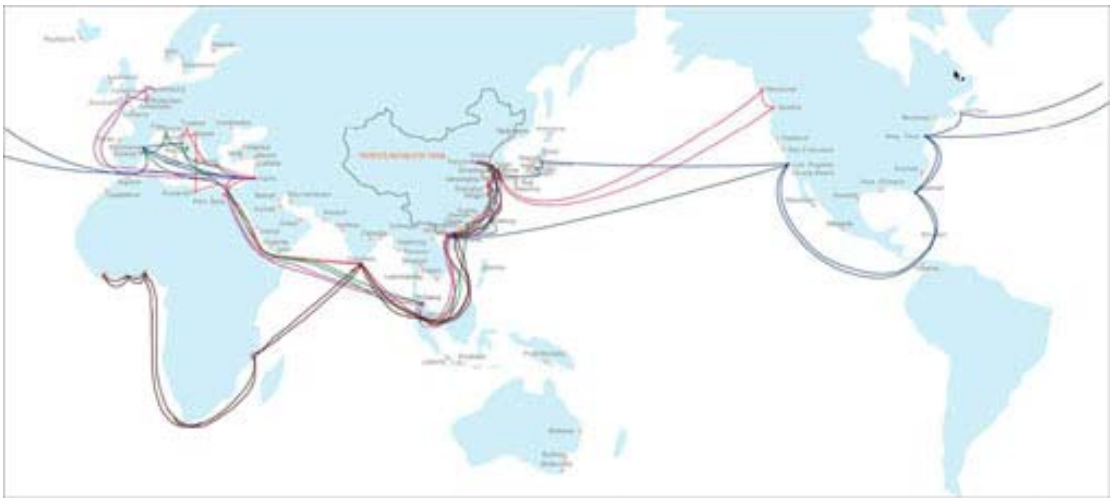


Figure 14: The International Routes of CSCL

Source: Collecting the data from the website of CSCL

6. Strong capacity of collecting cargoes

CSCL has a flexible and wide range of globalized Service Network. CSCL has established marketing network in the 97 foreign countries and regions now and cooperated with 82 public agents to provide international container shipping services for customers around the world. Moreover, CSCL has 98 branches and offices in the major cities in China. Globalized Service Network made CSCL has strong capacity of collecting cargoes in international and domestic markets.

7. Expanding the industrial chain

CSCL is expanding its industrial chain through investing port, logistics and other industries. Since October 2006, CSCL accelerated investment in the container ports through cooperated with Qinhuangdao Port Bureau and Yingkou Port Bureau. Now

CSCL manages 16 container port companies that operate 35 berths with 9,500 meters shoreline and 18.5 million TEU’s of handling capacity in China's Bohai Bay, Yangtze River Delta and the Pearl River Delta. To 2010, the ports that CSCL invests will increase by 70%, the number of berths will grow to 60, and the container handling capacity will increase by 95% from the present 18.5 million TEU’s to 36 million TEU’s.

In addition, CSCL not only invested in the domestic ports, but also invested in the foreign ports. In August 2007, CSCL jointly established a new port company with the United States’ companies that are SSA and MATSON. The new port company leased three ports in Seattle that cover a total of 70 acres and include 2 berths that are respectively 457 meters long and 366 meters long in April 2008. Moreover, the company also invested in the Los Angeles port and the Egyptian Damietta port. In November 26, 2007, CSCL invested over 4,000 million to get 20% shares of Egyptian Damietta port that is the largest container port in the Middle East.

At the same time, CSCL plans to invest three container manufacturing firms in Lianyungang, Jinzhou and Guangzhou, which can produce 45 million TEU per year.

8. The unique cooperation strategy

CSCL follows the principle of "non-alignment, more cooperation and the independent development" in the cooperation with other shipping lines. Although Liner alliance can increase strength of shipping lines, there is a greatest disadvantage that reduces the flexibility because several companies need to be concerted action, which will slow down the reaction for the changes of market. The facts have proved that CSCL has poor performance in collecting cargoes and sharing accommodation, compared with the members of the alliances, but it can adopting more flexible pricing strategy, and the ability of arranging route is strong. At present, the Top 4 shipping lines all adopt the cooperation strategy.

3.2.2 The competitive strategies of CSCL's main rivals in international routes

The competition of International shipping market is extremely intense, major shipping companies have taken different competitive strategies to expand their market share. Based on the proportion of income, CSCL's main international routes are: Asia-Europe (Mediterranean) routes, Asia-North American routes, China-East/Southeast Asia routes. Now the author will focus on the analysis of the competition strategies of CSCL's several major competitors in these international routes.

Table 9 : Table showing CSCL revenue in different routes

North America	Europe & Mediterranean	East & Southeast	Domestic	South America	Australia	Middle East	Others
33%	**33%**	**4%**	**11%**	**3%**	**4%**	**6%**	**6%**

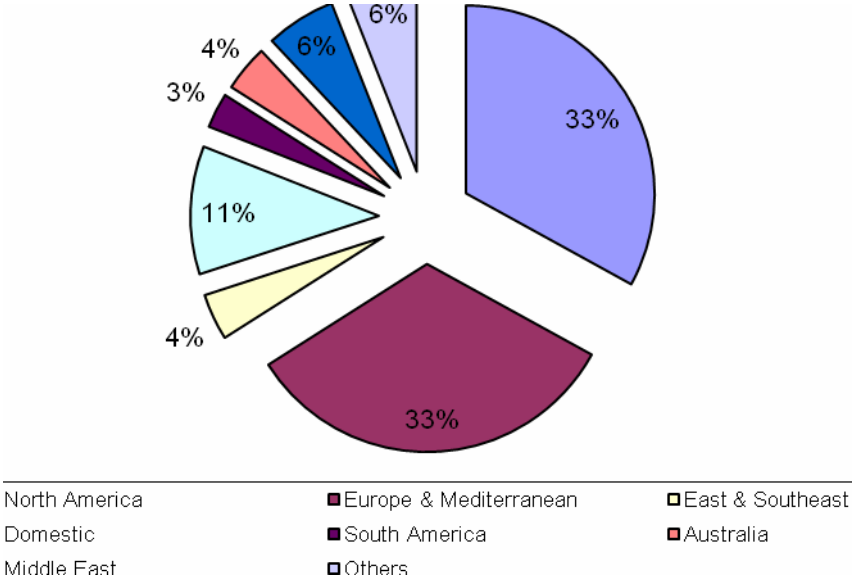


Figure 15: CSCL's revenues in the different routes

Source: Collecting the data from the website of CSCL

The route of Asia-Europe (Mediterranean)

In the route of Asia-Europe (Mediterranean), CSCL's biggest competitor is **Maersk**. Maersk liner is the world's largest liner companies, which established about 325 offices in over 125 countries. The Maersk Line fleet comprises more than 500 vessels with a total capacity of more than 1,700,000 TEU's, which accounted for about 16.3% of the total global capacity. Maersk became the world's largest and most competitive shipping lines based on its unique competitive strategies.

The competitive strategies of Maersk are mainly:

1**. Rapid expansion of capacity through large-scale mergers:**

Maersk expands its size of fleet through merging other major liner companies. Maersk considered that the acquisition of shipping companies can be faster and better to expand carrying capacity compared with building new ships, because building new ships need to wait for three years or even longer, which may cause missing the opportunity. Maersk can not only establish rapidly the advantages in fleet size and market share through the acquisition of other shipping companies, but also save the investment cost. Because the price of new vessels is rising year by year, the acquisition can rapidly expand carrying capacity at a lower price. Moreover, after the successful acquisition, Maersk can reduce the management cost of the single-ship, and it is more important to increase bargaining power in the procurement, such as centralized purchase of fuel and various Spare parts in cheaper price, made the concession agreement with port companies.

Maersk merged several big shipping lines during the period of less than 10 years. In July 1999, Maersk merged Sea-Land Company that was the world's second-largest shipping lines. In the next few years, Maersk acquired EAC - Ben and Safmarine, which consolidated the status of Maersk as the biggest shipping lines in world. In May 2005, AP Muller - Maersk Group spent 2.3 billion euros (about 3 billion U.S. dollars) to acquire the third-largest shipping line--P &O Nedlloyd Container Line, which was one of the biggest deal in Maritime history. The new company was renamed "Maerskline". Through acquired the carrying capacity of P &O Nedlloyd Container Line that was 679,000 TEU’s in total, the number of Maersk’s ships increased by 162 to 559 and the carrying capacity increased by 44 % to 1.5 million TEU’s, but also got 42 order ships of P &O Nedlloyd. The deal made Maersk's global market share growing from 12% to nearly 18%, which is far ahead of its competitor – the second-largest shipping lines MSC.

The two large-scale acquisitions greatly enhance the strength of the Maersk. Maersk enlarged service network through merged with Sea-Land, Maersk got more adequate customer resources through merged with P &O Nedlloyd. Moreover, the acquisition also reduced the pressure of competition.

2. Increasing investment in the construction of very large ships:

Maersk also expand its fleet capacity through invested in the construction of very large ships. In 2007, Maersk spend 7.8 billion U.S. dollars for the purchase of new vessels, and it has paid 3.5 billion U.S. dollars of which ordered 57 ships. It is expected that the carrying capacity of Maersk will expand twice as many after the delivery of the ships. It is most attraction to very large container ships in the all of Maersk's ship orders. Following the first PS-class[10] container vessel-Emma Maersk was delivered in the August 2006, there were more three same models that are Estelle Maersk, Eleonora Maersk and Elly, which entered into Maersk's routes. In 2007 another four PS-class vessels joined the fleet of Maersk. The PS-class vessel is about 397.71 meters long and 56.40 meters wide, 16 meters draft design, each vessel has the capacity of 11,000 TEU's at standard, but many experts believed that the kind of container vessel can carry at least 14800 TEU, and it is the world's largest container ship now. All eight PS-class container vessels have entered into will the Maersk's Asia-Europe routes that increased by 17% carrying capacity in the routes.

The Following table[11] shows the large container vessels Maersk invested in the past few years:

[10] The PS-class vessel is the latest addition to the Maersk Line fleet and the next generation of environment-friendly container vessel designed with the greatest possible consideration for their surroundings. Maersk has eight PS-class vessels now.

[11] The data are from the website of Maersk line, the data updated on February 18, 2008

Table 10: The large container vessels Maersk invested in the past few years:

Name of vessel	Capacity （TEU）	Delivery time	Flag	IMO NO.
Ebba Maersk	11000	2007	DIS[12]*	9321524
Edith Maersk	11000	2007	DIS*	9321548
Eleonora Maersk	11000	2007	DIS*	9321500
Elly Maersk	11000	2007	DIS*	9321536
Emma Maersk	11000	2006	DIS*	9321483
Estelle Maersk	11000	2006	DIS*	9321495
Eugen Maersk	11000	2008	DIS*	9321550
Evelyn Maersk	11000	2007	DIS*	9321512
Maersk Altair	9034	2007	SIN	9342499
Maersk Antares	9034	2007	SIN[13]	9342504

Source: Collecting the data from the website of Maersk

3. Reducing business risks through chartering ships

The shipping companies can reduce initial investment and the liability rate of assets through charter ships and put more money into increasing the capability of collecting cargoes and improving integrated logistics services. When the shipping market is at its low, shipping companies can reduce the loss through reduce the time of charter. Moreover, shipping lines can improve the competitiveness through chartering the advanced new vessels from the charter market.

According to the statistics of Axsmarine, as of May 2008, Maersk is operating 549 ships with a total capacity of 1,998,093 TEU's, which owned 193 ships that provide 1,043,653 TEU's, and chartered 356 ships that provide 954,440TEU's. From which

[12] DIS = Danish International Register of Shipping (DIS)

[13] SIN = Singapore Register of Shipping

we can see that the number of Maersk chartered ships is almost twice the number of its own ships. In the Maersk fleet, chartered ships provided 47.8% of the total carrying capacity. Such a chartering proportion is very high in all shipping companies. It is no doubt that Maersk is very good at to avoid risks and enhance its competitiveness.

		Total		Owned		Chartered			Orderbook		
Rnk	Operator	TEU	Ships	TEU	Ships	TEU	Ships	% Chart	TEU	Ships	% existing
1	APM-Maersk	1,998,093	549	1,043,653	193	954,440	356	47.8%	338,521	73	16.9%
2	Mediterranean Shg Co	1,282,774	392	727,669	217	555,105	175	43.3%	578,070	54	45.1%
3	CMA CGM Group	929,324	387	287,335	91	641,989	296	69.1%	629,667	75	67.8%
4	Evergreen Line	628,403	179	363,425	102	264,978	77	42.2%	108,596	10	17.3%
5	Hapag-Lloyd	506,801	140	265,331	62	241,470	78	47.6%	122,500	14	24.2%
6	COSCO Container L.	453,074	145	252,411	96	200,663	49	44.3%	528,432	74	116.6%
7	APL	426,792	126	134,796	37	291,996	89	68.4%	234,146	33	54.9%
8	CSCL	424,132	136	259,722	88	164,410	48	38.8%	236,879	35	55.9%
9	NYK	408,224	121	254,672	50	153,552	71	37.6%	216,690	39	53.1%
10	MOL	367,281	116	162,186	36	205,095	80	55.8%	202,037	36	55.0%
11	Hanjin / Senator	360,387	86	126,821	24	233,566	62	64.8%	314,611	40	87.3%
12	OOCL	358,563	85	209,493	37	149,070	48	41.6%	129,632	20	36.2%
13	K Line	307,932	93	169,306	34	138,626	59	45.0%	175,878	36	57.1%
14	Zim	290,884	114	129,307	40	161,577	74	55.5%	299,230	43	102.9%
15	Yang Ming Line	283,499	83	181,025	52	102,474	31	36.1%	176,232	29	62.2%
16	Hamburg Süd Group	278,927	115	116,214	38	162,713	77	58.3%	193,676	38	69.4%
17	CSAV Group	278,113	93	21,208	4	256,905	89	92.4%	146,467	20	52.7%
18	Hyundai M.M.	241,925	54	92,001	17	149,924	37	62.0%	160,082	20	66.2%
19	PIL (Pacific Int. Line)	179,116	114	103,462	72	75,654	42	42.2%	92,047	27	51.4%
20	Wan Hai Lines	144,200	84	101,237	52	42,963	32	29.8%	54,134	20	37.5%
21	UASC	119,971	43	84,094	28	35,877	15	29.9%	68,622	13	57.2%
22	MISC Berhad	92,970	30	40,151	15	52,819	15	56.8%			
23	IRIS Lines	78,004	59	59,478	44	18,526	15	23.8%	73,602	27	94.4%
24	RCL (Regional Container L.)	58,111	44	38,782	32	19,329	12	33.3%	5,464	2	9.4%
25	Grimaldi (Napoli)	54,230	57	45,133	41	9,097	16	16.8%	8,784	11	16.2%
26	Sea Consortium	47,226	57			47,226	57	100.0%			

Figure 16: AXS-Alphaliner TOP 100 Operated fleets as per 20 May 2008

Source: Collecting the data from the website of Axsmarine

4. Paying attention on the demand of Customers

Maersk's CEO, Vice CEO and General Managers of all of Branches or Offices regular visit customers around the world for consulting the comments of customers about service quality. For the constantly changing transportation demand of customers, such as the shippers require to choose specific container ships and other means of

transport, call at additional ports, speed up transit time and so on, Maersk will make every effort to do through overcoming all kinds of unexpected difficulties.

5. Investment in information technology

Maersk invested so much money to develop its own information systems. For example, Maersk established consulting system that customers can search dynamic information about delivery time, place and direction of their goods anytime. Maersk's electronic information networks covered the world, the company’s workers and customers can tell directly the CEO of Maersk headquarters about operation of routes. Recently, the Maersk signed the five years contract with IBM that IBM will support Maersk upgrading information system. Advanced information systems greatly enhance the Maersk service quality and service efficiency, which make a good impression to Maersk’s customers.

6. Expanding the range of business

In order to reduce dependence and business risks, Maersk gradually expand the range of its business. Nowadays, Maersk provides the services involving shipping, logistics, warehousing, port, shipbuilding, ship brokers, oil and gas exploration and supermarkets in the world.

The route of Asia-North America

In the route of Asia-North America, the world's famous shipping company **APL** is one of the most powerful competitors for CSCL. APL started to provide global transport services since the 1848. With more than 150 years' experience, APL has the knowledge and the expertise to help customers negotiate the increasingly complex and ever-changing global marketplace. In April 1997, APL was merged by Singapore Neptune Orient Lines (NOL) and formed the world's renowned global transportation and logistics group. APL provides customers around the world with container transportation services through a network combining high-quality intermodal operations with state-of-the-art information technology.

APL's containership fleet is among the most modern and largest in the world, it has more than 100 vessels sailing in the main ocean of the world. Together with partners of New World Alliance, APL is able to provide worldwide coverage across all the major trade lanes. And at a time when control can make the difference to how smoothly cargo flows through the supply chain, customers benefit from the fact that APL operates its own marine terminals at eight strategic points around the world, including three on the U.S. West Coast. In addition, APL has priority access in major ports such as in Singapore and China. APL has a close partnership with railroads, trucking companies and other transport services also ensure there is always a solution to match needs of customers.

As one of the top global container transportation companies, APL provides more than 60 weekly services reaching over 25,000 locations in 140 countries[14]. By combining

14 The information collect from the website of APL

world-class intermodal operations with leading-edge IT and e-commerce capabilities, APL provides customers with the full range of transport solutions, including seamless door-to-door services.

With more than 200 offices across the globe, APL can satisfy the demand of customers to expand in the world. After all, APL has a strong tradition as a pioneer, being one of the first carriers to move into emerging markets, such as Vietnam, India and China. APL’s local know-how and networks can help customers leverage emerging opportunities.

The route of China-East/Southeast Asia

In the route of China-East/Southeast Asia East, SITC CONTAINER LINES Co., Ltd occupied a large market share, so it is a powerful competitor for CSCL.

SITC Container Lines is currently operating over thirty full container vessels with export and import container volume reaching more than 800,000 TEU annually. And SITC concentrated on the operation of East and Southeast Asia shipping market. At present, SITC has become the leading carrier in SINO-JAPAN shipping liner services, with more than 40 routes covering China, Japan, Korea, Hong Kong, Taiwan, and extending to South East Asian areas including Thailand, Vietnam, Malaysia and Singapore. Since these years, SITC has been successively granted as 'The Best Container Lines Company' in 'China Shipping Industry Awards'. （See Figure 15）

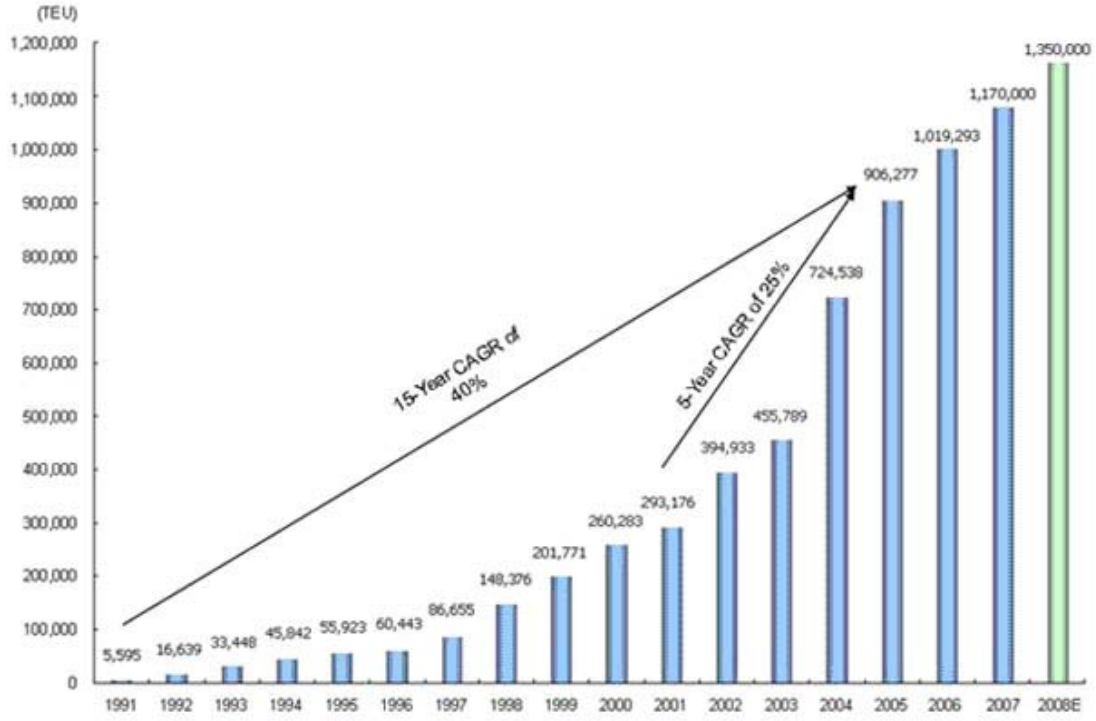


Figure 17 : The development trend of SITC

Source: Collecting the data from the website of SITC

SITC rapidly developed based on the following strategies:

1. Suitable size of fleet

Almost all of vessels are small ships with less than 1000 TEU's capacity in the fleet of SITC, although the capacity of SITC's ships is low compared with big ships of CSCL, there are the advantages of speed, fuel-efficient, easy maintenance, and high utilization and flexibility. The small ship is very suitable for the routes of China to Japan and South Korea, Southeast Asian with short voyage, few amounts of cargo and high density voyage.

Table 11: The fleet of SITC

No.	Capacity(TEU)	Speed (Knot)	Delivery time	Age
1	1,200	19	2003	5
2	917	19	2005	2
3	907	18	2006	1
4	847	18	2002	5
5	847	18	2002	5
6	831	18	2004	3
7	831	18	2004	3
8	831	18	2004	3
9	787	18	1999	8
10	787	18	2000	7
11	779	16	1998	9
12	766	17	2005	2
13	766	17	2005	2
14	750	18	2004	3
15	724	17	1996	11
16	672	18	2005	2
17	672	16	1997	10
18	672	18	2005	2
19	672	17.5	2004	3
20	598	16	1995	12
21	598	16	1998	9
22	585	16	1994	13
23	378	13	2006	2
24	378	13	2006	2
25	455	13.5	1991	11
26	358	14	1997	10
27	1043	18	2006	1
28	1012	17.5	1994	13
29	672	17.5	2004	3
30	672	17.5	2004	3
31	672	17.5	2004	3
32	907	18	2006	1
33	907	18	2007	0
34	907	18	2007	0
Total/Average	**25,400**	**17**		**5**

Source: Collecting the data from the website of SITC

2. SITC routes all concentrated in East and Southeast Asia region

Compared with other major liner companies, SITC has very intensive voyages in East and Southeast Asia routes. SITC routes all concentrated in East and Southeast Asia region, opened over 40 routes covering 13 major ports Chinese mainland and 52 voyages per week, 11 ports of Japan and 37 voyages per week; 4 ports of Korea and 10 voyages per week; 5 ports in Southeast Asia region and 4 voyages a week; 3 ports of Taiwan and five voyages per week; Hong Kong and 6 voyages per week.

Figure 18: The layout of routes of SITC

Source: Collecting the data from the website of SITC

3.2.3 The problems that CSCL faced in the domestic routes

Through comparing the competitive strategies of CSCL with that of other shipping companies, we can find some problems that CSCL faced in the development of international shipping. Here the author will summarize the problems in the following.

1. CSCL lack cooperation with other shipping lines

To supply maritime transport services, shipping lines often find the interests to co-operate with each other. Apart form chartering in and out ships or spaces on various base from and to other shipping companies, there are a number of other ways of achieving shipping co-operation. A variety of names are frequently employed in this respect: joint-ventures, partnerships, liner conferences, shipping pools, consortia, freight stability agreements, company alliance, slot chartering arrangement, etc. Among the alliance is deepest cooperation way. For example, APL extended greatly its service range and improved carrying capacity through made New World alliance with HKK and MOL. Most of Top 20 shipping lines also adopt the strategy to make an alliance. But CSCL just cooperate with other companies in the ways of chartering in and out ships or spaces, which cause the increase rate of CSCL's carrying capacity is low than other big shipping lines.

2. The proportion of own ships is high in the fleet of CSCL

In the fleet of CSCL, there are 88 own ships that provide 259,722 TEU's capacity and 48 chartered ships that provide 164,410 TEU capacity, the proportion of chartering is just 38.8 %, which is far less than that of CMA-CGM (69.1%), Maersk (47.8%) and COSCO (44.3%). The low charter ratio is not good for avoiding the risk of shipping market.

3. Imperfect Foreign Service Network

Compared with the wide range service networks of the Maersk and APL, CSCL's service mainly concentrated on Chinese mainland, expended to the few regions of the world, which can block the development of CSCL.

4. Poor information system

There is huge gap in information system between CSCL and APL. The poor information system has seriously affected CSCL’s service efficiency and service quality.

5. A single type of service

At present, CSCL can just provide “port to port” service because of lack of cooperation with railroads, trucking companies and other transport services. Even if in China domestic market, CSCL also provide limited “door to door” service. Therefore, CSCL rely mainly on low-priced competitive strategy. However, with increase of the fuel cost and other costs, low-priced strategy will hurt the long-term development of the CSCL, and it is also not conducive to CSCL transformation into a global logistics provider.

6. The capacity of collecting cargoes is inadequate

CSCL’s capacity of collecting cargoes is affected by poor service quality and narrow service network, so cargo sources are an obvious shortage in foreign countries, which cause the high percentage of empty containers rate in the voyage from foreign countries to China.

Chapter 4 Analysis CSCL's Opportunities and Challenges in the future

In recent years, the frequent fluctuations of the global economy greatly affect the stabilization of international shipping market. As a participant of international shipping, CSCL must always focus on the trend of international economy. The author will analyze the new opportunities and challenges that CSCL will acquire in the future in this chapter.

4.1 The challenges of CSCL meeting in the future

Despite the international shipping market being prosperous in 2007, we have seen the world economy emerging with the new changes and trends now, which will be able to influence the development of CSCL. First of all, the author will pay attention to the new challenges that CSCL will face.

1. Global economy slowdown

The demand of international container transportation is in direct ratio with the development of global economy. World economy can decelerate in 2008 because of American Subprime Lending Crisis[15] spreading negative influence. IMF forecasts the

[15] American Subprime Lending Crisis: According to the Wall Street Journal November 2007 information.

growth rate of world economy can decrease to 4.8% in 2008, lower than the rate of 2007.

American Subprime Lending Crisis happened in 2nd half year of 2007, which caused purchasing power of American customers decline and thousands of retail chain shops burst-up. For globalization of supply chain, the decrease of American consumption clearly affected the export of Chinese products. America is the biggest consumption economy in the world. And for China, America is also the very important country because most of Chinese products are exported to America.

According to statistics from China's Ministry of Commerce, China's export growth rate declined by 6.4% in the first quarter of 2008 and the export volume was 305.9 billion U.S. dollars, increased by 21.4%, because the demands of American market decreased. Especially for Zhejiang province that is main export province in China, it exports cargoes worth 3.87 billion U.S. dollars to U.S. in the same time, down 4.2%, which is first decline in more than 11 years since the Asian financial crisis of January 1997.[16]

2. Rising Costs

Fuel cost is one of the main costs of CSCL. Crude oil price rose quickly in 2007, oil prices increased from 50 U.S. dollars / barrel in the beginning of the year to nearly 100 U.S. dollars / barrel in the end of the year, the markup was close to 100%. In 2008, Oil prices also continued to create new high and as of May 21, 2008, oil prices have reached to 135.07 U.S. dollars / barrel, and the rising trend is far from over signs. The sharp rise of oil price caused the great increase of CSCL's fuel cost, which further influence CSCL's profit. In the past three years, although the CSCL's revenue increased, its net profit shows a downward trend. CSCL has adopted a series of

[16] Halloran, Richard. China's Decisive Role in the Asian Financial Crisis. Global Beat Issue, January 27, 1998.

measures to deal with the increases of fuel price, but these measures can save only a small part of the cost. So, the growth in fuel cost is a major threat to CSCL.

Figure 19 : Quarterly price movements of New York crude oil fixtures

Source: Internet source from Reuters

Compared with 10 years ago, the proportion of fuel costs in operating costs increased from 20% to 50%. To the period of 2007 January-June, CSCL's fuel costs had risen to account for 59.6 % of the sailing cost and 21.7%of the total cost.

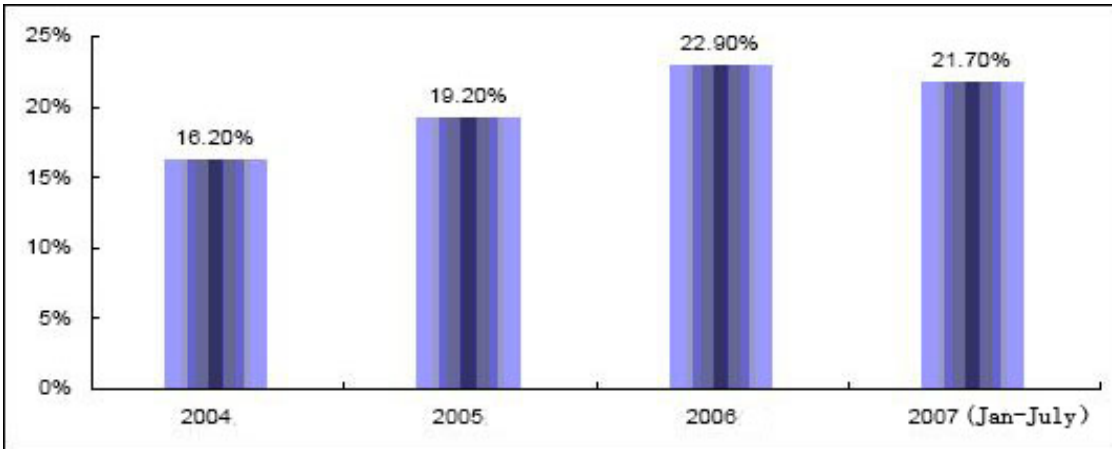


Figure 20 : The proportion of CSCL's fuel costs in relation to total costs

Source: From the internet website of CSCL.

Moreover, because of the global price inflation, labor costs increased. This leads to the increase in the Port fees that include the port container handling charges, stockpiling fees and so on, which bring shipping companies under pressure to control their costs.

Furthermore, Inland transportation cost is also the main cost of CSCL. CSCL provides not only the traditional "port-to-port" services, but also the integrated “door-to-door” service from storage to the loading port and from the port of destination to the point of delivery. So, a fluctuation in the price of the U.S. rail transport will seriously affect the cost of CSCL’s intermodal transportation.

3. Exchange risks

As the sixth largest shipping lines in the world, the business of CSCL's foreign trade transportation needs to be settlement in the U.S. dollar. The revenue of CSCL from foreign trade transportation accounted for 84.92% of total revenue in 2004, 88.69% in 2005 and 86.60% in 2006. The proportion of foreign exchange earnings in all of the company’s income is greater than the proportion of foreign exchange expenditure in total income. So, the fluctuations of exchange rate between the RMB and the U.S. dollar brought a great impact on the value of CSCL’s assets and profits. Since the implementation of China's exchange rate reform in 2005, RMB has accumulatively appreciated by 18.4% against the U.S. dollar. The exchange loss of CSCL respectively reached to 65.56 million RMB in 2005 and 51.34 million in 2006. It is estimated that RMB will accelerate appreciation against U.S. dollar in the future years, which will bring the negative influence for CSCL. So, CSCL must consider exchange risk as the one of biggest risks.

Figure 21 : The appreciated trend of RBM against U.S. Dollar during a year

Source: From the internet source of Yahoo website.

4. Surplus of Container vessels

According to the forecast of Clarkson[17], the balance of supply and demand would be broken in the international container shipping market in 2007. A statistics from Clarkson shows there were the new container vessels with the carrying capacity of 1.45 million TEU's that entered into the shipping market in 2007, and the total carrying capacity of world container fleets increased by 12.72% in the end of 2007. While the international container shipping trade continued to keep a high-speed growth in 2007, the amount of the trade reached to 130 million TEU's, the increase rate was more than 11.11% in 2007. With the stable development of global economy and the increase of main nations' consumption, Clarkson estimated that the amount of international container shipping trade will still keep a fast growth in 2008, which may reach to 143 million TEU with the increase rate of 9.80%. But at the same time, the total carrying capacity of the world container fleets will increase by 11.7%. That

[17] Clarkson are the world's leading provider of integrated shipping services." http://www.clarksons.net/"

means increase rate of carrying capacity is faster than that of container shipping trade. (See table 12）

Table 12: Analysis of the balance of container shipping supply and demand

	2001	2002	2003	2004	2005	2006	2007	2008 Est.
Annual increase rate of world container carrying capacity	8.50 %	8.80 %	6.90 %	7.90 %	10.07%	12.40%	12.72%	11.70%
Annual increase rate of total amount of world container trade	2.20 %	11.80%	10.50%	14.30%	10.08%	10.10%	11.11%	9.80 %
Balance of supply and demand	6.30 %	3.00 %	3.06 %	6.40 %	0.10 %	2.30 %	1.61 %	1.90 %

Source: Clarkson Research Services

Moreover, it is clear trend that very large container ships have already entered into the world shipping market. There will be 244 new very large vessels including the mega container vessels that be launched into the lines in this year, the vessels with more than 8000 TEU's carrying capacity account for a great proportion among them. That means the supply of carrying capacity will exceed the demand. Now, each container lines face unprecedented pressure in the situation that the surplus of carrying capacity will become fact in the coming future. For CSCL, it should be considered how to maintain an appropriate size of fleet. (See table 13)

Table 13 : The change of world container carrying capacity during the year of 1996-2006

Year	The carriage capability in the beginning of year		Delivery		Break and Loss	
	Number	Carriage capability (K TEU)	Number	Carriage capability (K TEU)	Number	Carriage capability (K TEU)
1996	1,903	2,887.95	209	407.8	22	24.21
1997	2,090	3,271.53	260	522.98	26	28.94
1998	2,323	3,765.14	264	528.45	57	88.05
1999	2,530	4,205.54	130	261.45	51	52.03
2000	2,610	4,415.55	157	444.75	15	15.5
2001	2,752	4,844.81	188	623.16	31	36.11
2002	2,906	5,430.39	202	642.82	56	67.13
2003	3,050	6,002.22	181	560.69	26	25.72
2004	3,205	6,537.17	177	642.89	6	4.02
2005	3,377	7,177.29	263	941.49	2	1.38
2006	3,637	8,117.23	366	1363.46	16	22.46

Source: Clarkson

Table 14 : Container ships new building Estimation for Next 5 years

	2007		2008E		2009E		2010E		2011E		2012E	
	Number	C.cap. (K Teu)	Number	C.cap. (K Teu)	Number	C.cap. (K Teu)	Number	C.cap. (K Teu)	Number	C.cap. (K Teu)	Number	C.cap. (K Teu)
>5000 TEU	4	37	100	765	115	931	138	1244	94	963	16	170
3000-5000TEU	12	49	102	430	123	514	72	302	9	38	10	43
2000-3000TEU	15	35	65	171	40	102	30	75	10	27	0	0
1000-2000TEU	40	51	126	180	113	168	32	48	11	14	1	1
500-1000TEU	34	29	82	68	19	16	11	10	0	0	0	0
<500TEU	6	1	5	1	0	0	0	0	0	0	0	0
Total	111	202	480	1614	410	1732	283	1680	124	1042	27	213

Source: Clarkson

Table 15 : The increase of ship order in the future

Size of container vessels	2007	2008	2009	2010	2011+	Total	Existing ships	The proportion of ship order in the existing ships
<500	2	1	0	0	0	3	137	2.52%
500-999	66	49	15	8	0	137	538	25.53%
1000-1499	75	100	41	3	0	218	706	30.90%
1500-1999	84	69	65	5	0	224	800	27.94%
2000-2499	43	7	0	0	0	50	687	7.32%
2500-2999	117	132	76	3	0	328	919	35.67%
3000-3999	102	78	81	3	0	265	1,056	25.11%
4000-4999	193	283	289	60	0	826	1,514	54.54%
5000-5999	89	156	79	52	0	376	1,262	29.76%
6000-6999	64	241	267	169	20	760	720	105.43%
7000-7999	28	0	0	0	0	28	346	8.12%
>8000	353	412	522	137	0	1,424	1,038	137.26%
Total	**1,216**	**1,528**	**1,435**	**440**	**20**	**4,639**	**9,725**	**47.71%**

Source: Clarkson

5. The fluctuation of price

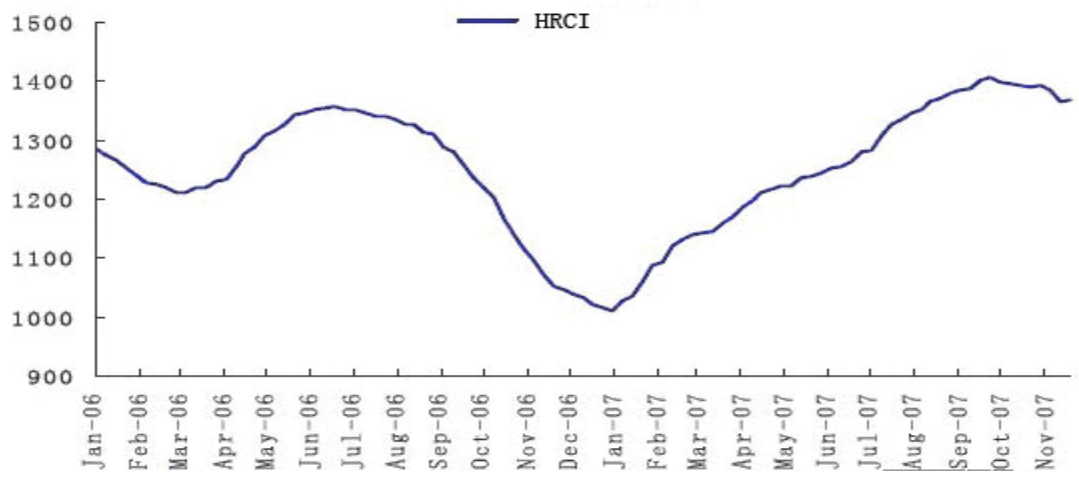
Because the supply and demand of container shipping service always change, the price of the container transportation service fluctuates every time. And also the price is difficult to accurately predict because the supply and demand are influenced by multiple factors. For example, reduction of the demand of container shipping services

or excessive increase of the carrying capacity will lead to the decline of the price, which further causes the decrease of shipping companies' income, and even make the shipping companies bankruptcy.

Because some companies made lapse of judgment on the balance of supply and demand of the shipping market, which caused shipping companies began to significantly expand their capacity in 2002, now the global carrying capacity has been substantial increase, so that the price is a clear fall.

HRCI[18] has been experiencing cyclical fluctuations during these years. HRCI has shown a downward trend in 2008 after gradually increasing to high through climbing slowly in 2007.

Table 16 : Howe Robinson Containership Charter Index from Jan 06- Nov 07.



Source: The Website of Chinese Logistics

[18] HRCI - Howe Robinson Containership Charter Index. The HRCI (Howe Robinson Containership Index) can be used to analyse the Container Charter Rate fluctuations.

6. The Chinese government adjusts foreign trade policy

The Chinese Government adjusted foreign trade policy in 2007, which replace the policy of export-oriented foreign trade by the policy of reducing the trade surplus and expanding the import. Moreover, the government further reduced the export tax rebate rate and raised the threshold of the processing trade.

China’s processing trade enterprises are the main cargo sources of CSCL. The new policies led to China's processing trade enterprises survive under heavy pressure. Taking the textile industry as an example, during the period of Jan-Dec of 2007, China exported textile and garment worth 171.2 billion U.S. dollars, increased by 18.9%, which is the first to the export growth rate less than 20% since 2003. This will bring a heavy negative effect to the international transport business of CSCL.

4.2 The opportunities of CSCL meeting in the future

At the same time, the international shipping market is full of opportunities as well. The author will analyze the opportunities that CSCL can acquire in the future.

1. Global trade is expected to continue to maintain a good trend

IMF issued the latest "World Economic Outlook" report recently, which pointed out that the U.S. economic slowdown would have limited impact on other countries. With the U.S Federal Reserve and European Central Bank taking positive measures to cope with the possible impact from Subprime Lending Crisis, the U.S. economy is gradually recovering. Moreover, the consumption of Europe, North America, Japan and other consumer-countries are expected to remain strong, which mean traditional shipping market is consolidation. And it is expected that emerging markets and developing countries, such as China and India, will be continued to rapidly grow. Based on the above economic forecast, the growth rate of the global trade (including

trade in services) will reach to 7.6% in the next two years, and major countries are expected to maintain the same pace of development in 2008-2009 with that in 2004-2006. So, the international shipping market will be able to obtain growth in the future years.

2. The huge demand of China's domestic market

Although American Subprime Lending Crisis affected China's export growth, the growth rate of Chinese economy slightly decreased to 11.4% in 2007. China Quarterly Journal[19] estimated that China's export growth only contributed 0.4% to the growth rate of GDP and another 10.8% contribution is from the domestic market's demand growth. Even if there would be a substantial decline in export growth this year, the Chinese economy will also maintain double-digit growth rate. The growth rate of the Chinese total retail sales increased from less than 10% before 2003 to more than 13 % in early 2006, and to more than 20% in December last year. This shows that China's domestic market has strong demand. In addition, because labor costs rose in the China's coastal areas, many coastal labor-intensive industries move to China's inland areas with cheaper labor costs, which make the exports of goods increased in inland areas. As CSCL has a wide range of domestic sales network and take the highest market share in the internal shipping market, the strong demand of internal shipping service is very conducive to CSCL's domestic container service.

3. The rise of emerging markets' demand

In recent years, rise of oil' prices led to oil-producing countries become very rich and their consumption is also rapidly growing. With the demand of iron ore and other

[19] The China Quarterly is the leading scholarly journal covering all aspects of contemporary China including Taiwan. Its interdisciplinary approach covers a range of subjects including anthropology/sociology, literature and the arts, **business/economics**, geography, history, international affairs, law, and politics.

metals increased, the exports of Australia, South Africa, South American countries rapidly grew. Now, the demand of the consumption of the Middle East oil producing countries and other mine-producing countries is growing, which drives the demand of container transport services to grow. At the same time, Vietnam, India and other countries utilize their advantages of low-cost labor force to attract many multinational corporations setting up manufacturing factories, which enable these countries to have good export business. The above factors will provide more opportunities and supply for the shipping lines in 2008.

4. Limited handling capability of ports will constrain growth of carrying capacity

The world's container shipping capacity growth rate is higher than that of world container trade volume growth, but some of the factors hamper the capacity to grow. The port handling facilities are hard to satisfy the increasing demands of more ships. That is why the world main ports are always congestion, which reduces the ship's efficiency. Moreover, many companies significantly slow down the speed of their ships for saving fuel, but in order to maintain the original schedule of lines, companies need to put the more ships into services, which mean some new ships will not cause the surplus of the carrying capacity in shipping market. The actual available capacity is estimated to increase by about 10%.

5. “China factor” will continue to promote the development of shipping industry

The "China factor" has gradually become the main driving force of rapid development of the shipping market. With the economic globalization and industrial transfer, China is becoming one of the world's most important manufacturing bases. China's foreign direct investment, particularly in the manufacturing sector, has a substantial increase, which promote the rapid development of China's shipping market because a great number of products need to export by shipping while the manufactory need to import

a lot of raw materials by shipping as well. According to the figures that the World Shipping Council announced, China's trade growth accounted for 60 percent of world trade growth in the past two years. The International Maritime Organization has forecast that China's shipping industry will grow more than four times in the total scale during next 15 years.

The rise and fall of the Chinese market directly affect trends of the global container market. In 2008 China's economy will continue to maintain high speed growth. Despite the impact of American Subprime Lending Crisis, Chinese government expected China's GDP growth will reach about 10 percent in 2008. Strong development of China's economy will promote the import and export, which means the Chinese shipping market will further grow. And also 2008 Olympic Games will lead to growth of relevant container cargo sources in China in this year.

6. American Subprime Lending Crisis caused global financial institutions tighten the ship financing

American Subprime Lending Crisis has affected shipbuilding industry in last year. European, American and Japanese financial institutions began to tighten the ship financing, because ship construction industry take up more funds and a longer time, which caused shipping companies was difficult to get money from bank for investing in shipbuilding. The difficult financing leads to the shipping companies reducing demand of ships. The orders for new ships are expected to be reduced in 2008.

So, although the delivery of a large number of new vessels will make the price down now, the price will most likely rebound after a short time.

Chapter 5 The CSCL Future Competitive Strategies

With more and more shipping lines bringing in the same type of large ships, it is increasingly leading to homogenization in container shipping services. So, the CSCL must develop logistics services in a rapid manner related to shipping for obtaining the competitive advantages in the future. CSCL can extend services in the two ends of sea transportation, for example, constituting a wide range of inland services networks, improving transport services in roads, railways, waterways, aviation and other transport access, investing ports and storages. CSCL can provide a complete set of customized logistics services for customers through extending service, involving in warehousing, distribution, etc. CSCL can even enter into the customer's supply chain and fully participate in the customer's procurement of raw materials, distribution of parts and components, product sales, and any links involving the transport. In addition, CSCL should also compete in doing research for latest information and electronic transaction technologies that can improve logistics services, including the liner companies improve their e-commerce platform to help customer satisfaction and improvement in supply chain operational efficiency. At present, Maersk, APL and other major international shipping companies have been initially adopted the process to provide comprehensive logistics services through several decades of development, and they gradually transformed from the ocean transport service providers to the logistics service providers.

Therefore, according to the development trend of global container shipping, the development direction of CSCL is becoming a large-scale comprehensive logistics company with the core competitiveness that cannot be copied by other enterprises. To

achieve this goal, CSCL must completely establish the advantages in the five aspects that are service, size, cost, personnel and information.

5.1 Establishing the advantage of service

CSCL must provide better services in the competition with rivals for maintaining the competitive advantages. The author will provide some strategies that will support CSCL becoming the winner in the competition.

5.1.1 Providing high-quality service

Because competitive strategy of reducing the price is not favorable to the development of the shipping companies, which is also considered as a hindrance for companies, the strategy of improving quality of service is increasingly being accepted by most of shipping companies. As a service enterprise, CSCL has a list of reputed customers globally being served and it must safely deliver the goods to the destinations without delay based on the requirements of the customer.

CSCL should provide services with the following characteristics:

1. **Safety**

Cargo owners are most concerning about whether shipping companies can provide safe and high-quality transport services to ensure the integrity of the goods reached to destinations. If the quality of service cannot be guaranteed, lines and customers will suffer great losses. So, companies that cannot guarantee the quality of transport service are very hard to win the trust of cargo owners, and also they can hardly compete with rivals.

2. Low Price

The price of service is also main factor for customer concerns. Compared with other modes of transportation, the price of shipping is usually cheaper. But the total cost of shipping increases much through several transfers and additional miscellaneous operating expenses. For controlling the total cost at a low level, CSCL needs to reasonably organize the entire process of transportation and reduce the number of transfers and operations, so that the total cost of shipping is less than that of other modes of transportation (rail, air, roads, and pipelines), which can increase competitiveness in the competition with other modes of transport.

3. Innovation

With the development of economy, the requirements of cargo owners (customers) will become increasingly high to the service from the shipping companies. In order to meet the demands of customers, CSCL needs to constantly innovate new methods to provide a wide range of transport services. Only in this way, CSCL can get a good competitive edge over the rivals.

4. Speed

In order to ensure the supply of raw materials and sale of products on the market, CSCL should do the best to improve the speed of the delivery of goods in reasonable circumstances. Continuity of sea transport is worse than that of the railway and highway, and it is very few to direct transport by ships, in most cases the cargoes must be transferred in the transfer port, so if the link is poor between sea and rail way or between sea and inland river, it is possible to create the backlog of goods in transit and also cause the decay of fresh degeneration, which is very unfavorable for the cargo collection of shipping companies.

5.1.2 Extending the range of service

For becoming a world-class shipping logistics company, CSCL must expand the range of service, which will be extended to the Chinese mainland market and overseas markets. A wide range of service networks can provide a strong competitive advantage for CSCL.

1. Extending the range of service in Chinese inland

At present, the carrying capacity of CSCL mainly concentrated in China's coastal areas. But with the coastal manufacturing relocating to the inland and the China western development policy[20] stimulating rapid development of the inland economy, the demand of transport service will increase sharply in the inland market in the coming future. So, CSCL should take full advantage of local enterprise and actively extend business in the inland market.

First of all, CSCL can expand the range of cargo collecting in the inland market through the establishment of branch offices and cooperation with the local freight forwarding companies. Compared with the coastal areas where a large number of manufactories concentrated in a few economic development zones, the inland areas is very vast where manufactories are scattered, which it is difficult to collect cargoes for shipping lines. So, CSCL must set up adequate freight agency to extensively serve the inland customers.

If there is only complete network of services but not the appropriate means of transport, shipping lines also cannot provide transportation services. CSCL should

20 China Western Development is a policy adopted by the People's Republic of China to boost its less developed western regions. The policy covers 6 provinces (Gansu, Guizhou, Qinghai, Shaanxi, Sichuan, and Yunnan), 5 autonomous regions (Guangxi, Inner Mongolia, Ningxia, Tibet, and Xinjiang), and 1 municipality (Chongqing). This region contains 71.4% of mainland China's area, but only 28.8% of its population, as of the end of 2002, and 16.8% of its total economic output, as of 2003.

increase investment in the river trade routes, for example, CSCL can develop deeply the transport resource of the Yangtze River, Zhujiang River and other rivers, while it makes the transport service covering all of main rivers through putting in different sizes of ships. In addition, because the distribution of inland water resources is uneven, and many places cannot be passed by ships, CSL must actively develop other modes of transportation, including railway transportation. CSCL should cooperate with the railway company, or even take part in railway construction, and then extend railway transport services into the areas with adequate cargo source. Moreover, CSCL develop Ocean-Railway through transportation to achieve the smooth flow of goods between China and overseas. In this regard, CSCL can refer to the case that APL operates a good land bridge transport service in the North American. Besides, CSCL should develop road transport through building its own truck fleet and closely cooperated with the truck company. With the completion of China's expressway network, most of the inland areas can be connected by road, road transport can greatly expand CSCL’s the range of services.

2. Extending the range of service in Overseas market

In contrast with a wide range of domestic services network, CSCL provide services which do not cover major ports globally. CSCL vessels cover main ports such as the Port of New York and Los Angeles in the United States, Hamburg Port in Germany, Rotterdam Port in Netherlands, etc. The lack of overseas networks of service make that CSCL can only provide the "port-to-port" service in foreign ports, and its capacity of cargo collection is largely limited in foreign markets, which cause CSCL’s rate of empty container is very high in the return flights from overseas. So, it is immediate to expand the range of service in overseas market for CSCL.

Because foreign inland transport networks are well-developed, CSCL can cooperate with the local transport companies through choosing the suitable railways companies, truck companies and air companies as the sub-contractors of multimodal

transportation. CSCL can use their professional skills and service networks to provide "door-to-door" service in foreign markets for the customers. At the same time, CSCL can make an alliance with local qualified forward companies which can quickly collect cargoes for CSCL if CSCL give them an attractive percentage of the rebate. In this way, CSCL can not only make up for defects of unaware of the local transport but also establish its overseas network of services in the short time and few capitals. Of course, with expansion of overseas business on the local market and the gradual understanding the information and rules of the local market, CSCL should set up its own branch companies and forward companies in the foreign important port cities through referring to development experience of foreign shipping lines in China market, which unified arrange CSCL's overseas marketing activities and collect cargoes through taking full advantage of Chinese company. Because many large foreign companies built their own factories in China or regular procure goods from China but they usually do not understand the Chinese transport market, CSCL can use its advantages to provide advice and services for foreign shippers, and even integrate into customers' supply chain and help them in the procurement and sale of goods.

5.1.3 Expand the types of services

The diversification of business can not only make enterprises to avoid risks, but also provide various services to effectively meet demands of customers. In the future, CSCL should learn business strategy of Maersk to increase investment in the surrounding maritime industry, such as ports, terminals, storage, logistics, container manufacturing and repair, shipbuilding and repair, and even oil exploration, retail trade, etc. These investments will strongly support container business of CSCL, and that is conducive to integrate with logistics, port, shipping and manufacturing resources and decentralize the risks of a business failure.

During next years, CSCL should focus on strengthening investment in the hub port and the transfer port. With more large ships entered into the shipping market, the Hub-Spoke liner service will be adopted by more shipping lines instead of End-to-end liner services in the future. The large ships will just load and discharge cargo at a few hub ports rather than calling at every port. And then relative small feeder vessels will go back and forth between the hub port and other ports. According to the current status of the world's ports, we can find that there are a few hub ports that can accept berth of large vessels and provide efficient handling. Excepting Rotterdam, Hamburg, Antwerp, Felix, Southampton, Hong Kong, Long Beach, Singapore and other major ports that have more than 15 meters in the water depth, the other ports almost cannot accept the berth of the very large ships, because the sea gauge of these large ships reach to 14.5 meters to 15 meters. In addition, low handling efficiency always makes the ports jam because of lack of handling bridge/crane in the berth of many ports. So, the investment in the hub ports that can not only meet the demands of CSCL's large ships, but also effectively alleviate the current situation of jam in the major ports and rise the ship's turnover rate of CSCL.

5.2 Establishing the advantage of size

First of all, CSCL should continue to invest in building more ships. Despite the supply of carrying capacity of container is surplus in the short time, the research of Clarkson shows the demands of container transport service will continual increase in the future. If the container trade remains an annual growth rate of around 9% in the future, it will require the additional capacity of 1.7 million TEU to cope with the demands of container transport services only in 2011. Moreover, the annual needs of the additional capacity may be more than 1.7 million TEU after 2011. CSCL needs to invest a lot of money for building or lease the ship to ensure its market share in the next few years.

Besides, CSCL should order bigger ships to reduce the transport cost per container. Now, it is no doubt that very large container ships can bring the cost advantages for shipping companies, but also helps in acquiring a major part of market share. With the expansion of tonnage of container ships, the average cost of each container will be gradually reduced.

Furthermore, CSCL should expand the size of carrying capacity through all kinds of cooperation with other shipping lines. The gap of carrying capacity is increasing between CSCL and other big shipping lines since 2005, there were some important mergers and acquisitions happened in the world, for example, A.P. Moller – Maersk maintain the No.1 through acquired Royal P&O Nedlloyd N.V in 2005, and with the acquisition of CP Ships in 2005, the Hapag-Lloyd became one of the top five shipping companies in the world, CMA CGM acquired its French rival Delmas in September 2005 that resulted the corporation became the third largest container company in the world behind the Danish A.P. Moller-Maersk Group and the Italian Mediterranean Shipping Company S.A. The size of the world's top 10 shipping lines further expand, and their market share in the global share has increased from 44.6% in 2000 to 60% in 2006. With more large container ships appearing in shipping market, it is increasingly important to cooperate or allied between shipping companies**. The greatest advantage of an alliance is to reduce business risks.** These kinds of cooperation that include joint investment in shipbuilding, joint venture routes and share accommodation can increase density of flights without increasing the number of shipping vessels, which can ensure a higher utilization rate of accommodation of large ships, but also further expand and optimize the layout of the global routes. So, CSCL should rapidly expand its carrying capacity and market share through joint or acquire other shipping companies in the right time.

5.3 Establishing the advantage of cost

Low cost can support CSCL obtaining the advantage in the competition. CSCL should reduce costs as far as possible through adopting various measures.

5.3.1 Maintaining an appropriate fleet structure

The carrying capacity of container ships will be surplus during the next few years, especially after the large container ships entered into the market. Therefore, CSCL should determine the proper proportion of its own ships and chartered ships for avoiding risk of shipping market. CSCL can reduce losses through shortening the time of charter when the market is in its low. Moreover, CSCL should increase the proportion of larger vessels in the fleet for acquiring the competitive advantage. At the same time, CSCL needs to retain part of the small ships for feeder transportation.

5.3.2 Increased investment in multimodal transportation

Although large vessels can reduce the transportation cost, the total transportation cost would be still very high if there is no good transport service in land. So, as multimodal transportation provider, CSCL cannot only focus on ocean transportation but also pay attention on land transportation. In the future, CSCL should increase investment in port, storage, railway transportation, trucking service and even air transportation. If CSCL has no more money to individually provide these services, it can cooperate with Railway Company, Trucking Company and Air Company.

5.3.3 Reducing costs

The low cost means high competitive advantage. Compared with extending the market share, it is easier to reduce costs for improving benefits. CSCL is famous for its low cost. In the future, CSCL should adopt more measures to maintain the advantage of low cost. For example, CSCL can reduce the Operating costs by employing Mega container vessels by which they can reduce the Unit cost in a drastic way.

CSCL can adopt a strategy to reduce the fuel costs by implementing a proper plan that deals with ports with less bunker costs. CSCL can reduce the Bunker costs by making sure that all the vessels in the same liner route take bunkers in a similar port. CSCL can have a contract with a Bunkering company for a fixed period of time and thus can sustain the ever increasing bunker costs by making sure that all the vessels supplied with fuel by the same bunkering company.

CSCL can reduce Manning Cost by employing Chinese crew on board all the vessels. CSCL is not required to employ the highly paid foreign crew.

5.4 Establishing the advantage of personnel

Experienced employee is most valuable for shipping lines. CSCL can provide high-quality services through the hard work of professional employees. A kind and experienced employee can attract many customers for company. So, CSCL must consider the training of staff as a very important thing. In the future, CSCL can refer to the training way of Maersk that send the staff to university or overseas branches for studying knowledge and experience. And CSCL should ask employee regularly contact with customers for the realizing their demands.

5.5 Establishing the advantage of information

The 21st century is the era of information. The information technology can greatly improve the efficiency of work. More and more shipping companies began to increase investment in information system. Among Maersk and APL established the latest information systems that provide very strong competitive advantages. So, CSCL must upgrade its information system to meet the higher demand of customers. The powerful information system not only improves the efficient service but also extend the service range. Many customers can book on internet even if there is no service office there. So CSCL should develop e-commerce in the future to cover each and every region including the domestic as well as international areas.

Chapter 6 Conclusion

This Research paper “Research on Competitive Strategy of China Shipping Container Lines (CSCL)” studies the Competitive Strategies that CSCL adopted in its main routes that are China Domestic Trade Routes, Asia- Europe (Mediterranean) Routes, Asia-North America Routes and China-East/Southeast Asia Routes. Also, the author analyzed the Competitive Strategies of CSCL’s Main Competitors in the different routes, which include COSCON, Nantsing, Maerskline, APL and SITC. Through analysis and comparison of competitive strategies of CSCL and its competitors, the study has been successful to find the problem of CSCL’s competitive strategies and provide suggests recommendations to improve CSCL’s strength in the competition.

During the past 10 years, CSCL acquired rapid development through adopted the strategies of low price, effective reduction of cost, large investment in shipbuilding, optimizing the fleet structure and so on. However, along with the change of world economy, there are new opportunities as well as risks in the container market at present, CSCL has to adjust its competitive strategy to seize the opportunities and avoid risks.

CSCL should study and analyze the various container liners strategies and then it develops its own competitive strategies in order to sustain its position among the top five global container lines. The strategies of Maersk line and APL have to be learned and taken into consideration and their failures should be studied carefully, so that CSCL can be prepared well in advance.

In the future, CSCL needs to concentrate on the following aspects which that include but not limited to:

- Improving service quality
- Extending service scope
- Increasing the carrying capacity
- Optimizing the fleet structure, especially increasing the proportion of very large container vessels
- Upgrading information system
- Reduction of Cost s which includes the Bunker Cost, Manning Cost and Port fees.
- Developing various industries, particularly increasing investment in the industries related to Intermodal Transportation, such as Port, Terminal, Railway Transportation, Trucking, Air Transportation, Inland River Transportation, etc.
- Establishing and also further develop the present Cooperation with other Shipping Lines, Port Authority, Railway Companies, Air Lines, Forwarding Companies and Manufacturing companies

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