

# CHANGING CHINA

China's slowdown is not all bad for container shipping, writes *James Frew*

HEADLINES about discussing China's economic slowdown and the impact a hard landing could have on the global economy and shipping demand.

While these stories make interesting reading, they are neither as new nor as dramatic as they appear.

Anyone looking at the forward macro-level view of China's GDP growth 12 months ago and comparing it to recent figures will not have been surprised. While the volatility and downward revisions have troubled Asian investors, the published GDP numbers are pretty close to forecasts.

What has rocked the shipping markets is the changing composition of that GDP growth. Once fluctuations associated with China's net trade balance are stripped out, the contribution of investment to GDP growth has been shrinking since the halcyon days earlier this decade. On a quarterly basis, in 2013 investment contributed a relatively steady share of 51%-53% of GDP growth (excluding net trade), whilst in 2014 the contribution was consistently over 40% and averaged around 45%. The first half of 2015 saw investment continue to account for over 40% of net growth, before this ratio plunged to 29% in the fourth quarter of 2015.

In other words, what Chinese growth there

is has been centred far more around consumption and less around new infrastructure, factories or housing. This is exactly what many commentators have been saying has had to happen for years. The change from exciting but ultimately unsustainable investment-driven growth is in a way a positive development, part of the grand plan, in as much as one ever existed.

For shipping, the movement away from building stuff (requiring not just iron ore and coal, but also a host of other products, of which much was transported in a container) is not positive, but in the longer-term container shipping is now the best-positioned of the shipping sectors. While analysts are now debating when Chinese peak steel production or peak coal imports will occur, no one is yet talking about when Chinese demand for high-value imports from the west will plateau.

The other factor which has battered the Chinese economy is largely out of the control of Chinese policy makers, which has been the weakness of external demand, to which Chinese exports have proven to be particularly sensitive. An analysis of Asian exports last year showed that it is China which is under the most pressure. Exports from countries in the Association of South East Asian Nations



China's import figures are growing

in 2015 were essentially stable; it was China's exports that went from growing by around 7%-8% annually to a 5% fall.

This decline is partly to do with the competitiveness of Chinese manufacturing with respect to southeast Asia, but in large part it represents weaker demand in Europe. Weak European demand has dealt a double blow to container volumes, not solely affecting export cargoes but also decimating demand for the end products of supply chains with multiple locations. As a result, shipments of component parts for final assembly in China and subsequent export have slumped.

The more positive story is that European economies are making some progress. Numbers for the EU28 show the unemployment rate

dropping while government debt peaked in 2014 and is coming down. European economic growth in 2015 was actually stronger than in 2014, and if 2016 sees growth rates hold steady then that would bode well for European container demand.

Although the outlook is more cautious for transpacific volumes, providing the European economy performs as expected then Asia-Europe headhaul trade will post strong growth this year. For container shipping it is this resurgence in European demand, rather than structural changes in the Chinese economy, which will propel an industry-wide recovery.

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