

## **Discussion on the Internationalization Development of China Logistics Enterprises**

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### **Abstract**

*According to the situation development economy and industry, the internationalization of China enterprises is changing from resource driven into diversified technology and service driven, which can provide an opportunity for the internationalization of logistics enterprises in China. This paper outlines these development opportunities and finds that the degree of internationalization of China logistics enterprises is very low so far and there are still some problems hindering the process of internationalization. Finally, this paper points out the future trend and direction of the internationalization of China logistics enterprises.*

**Keywords:** China Logistics Enterprises; Internationalization; Development Environment; Future Trends

### **1. Background**

The practice of world economic development shows that a country's economic development has a relatively stable internal links with its industrial structure evolution, and presents a higher sequentiality. Under the background of informationization and globalization, one of the fundamental fact is China's economic development depends on its sustained development rapidly and the economic situation changes driven by industrial development. Of course, it is widely accepted that the economic situation changes reflects not only the structure changes of intra and inter industry, but also the concomitant development of industrial internationalization. At present, as one of the most important productive service industry, the internationalization of logistics enterprises is an important foundation and power to improve the quality of China's economic growth.

China's economic is shifting to the "new normal" with the characteristics of enhancing quality and efficiency in order to maintain the rapid development of the domestic economy depending on the optimization of economic structure and industrial innovation as the core driving force. Especially, with its fast economic development and increasing global role, China will promote the internationalization development of its logistics industry according to the design of putting actively forward and implements "the Silk Road Economic Belt and the 21<sup>st</sup>-Century Maritime Silk Road" in the "new normal". In fact, "the Silk Road Economic Belt and the 21<sup>st</sup>-Century Maritime Silk Road" is structuring infrastructure construction projects with the developing countries along the Belt and Road in order to serve the global trade of China "going out" and build the international service network. China enterprises will reap large business orders including construction, equipment manufacturing and transportation and so on depending on the Belt and Road. However, all those need efficient multinational logistic enterprises using two markets and two resources of the domestic and overseas through internal and external linkage and sea and land planning in order to build well a new pattern of continuous open international competition and cooperation with win-win.

### **2. The Development Environment**

In recent years, more and more enterprises have being walked out the seek for development, which requires objectively logistics enterprises to go out actively as well, in particular participate in the Belt and Road construction.

## 2.1 Strategic Background

In 2013, to comply with the domestic development needs and the people of Asia, Europe and multi-national development aspirations, China formally proposed “the Silk Road Economic Belt and the 21<sup>st</sup>-Century Maritime Silk Road”. It is already a national strategy which China will change itself opportunities into the world opportunities. “The Silk Road Economic Belt and the 21<sup>st</sup>-Century Maritime Silk Road” encourages and helps relatively competitive enterprises to invest, to stimulate exports of goods and services, to build strong multinational enterprises and brand names. Meanwhile, it also will allow China enterprises to make full use of domestic and foreign “two markets and two resources” to actively participate in international competition and cooperation to achieve a modern, powerful strategies for sustainable economic development in China.

“The Silk Road Economic Belt and the 21<sup>st</sup>-Century Maritime Silk Road” considers standing global perspective the development of the value chain, supply chain, industrial chain and energy chain, and construct a new pattern of opening up to the world through expanding the open field, open structure optimization, quality improvement to create an open, inclusive, balanced and inclusive regional economic cooperation framework. Actually, “The Silk Road Economic Belt and the 21<sup>st</sup>-Century Maritime Silk Road” is not only the objective needs to expand the breadth and depth of China’s opening to the outside world, but also is the inevitable choice for adjusting its economic structure and changing the mode of development, even a promotion for the common development with the countries along the Belt and Road and the world.

## 2.2 Demand Environment

At present, China’s foreign investment and cooperation has been developing rapidly with substantial growth in overseas investment and the significantly improvement on scale of foreign contracted projects. More and more enterprises go out of the country forming a large demand for the logistics service of China’s logistics enterprises.

### 2.2.1 To maintain rapid growth on foreign direct investment

In recent 10 years, the scale of China’s foreign direct investment and cooperation expanded rapidly. Non-financial net foreign direct investment has increased rapidly from \$5.5 billion in 2004 to \$118.02 billion in 2015 increased by 21.46 times among 11 years, and achieves an average annual growth of 33.6%. Among them, the investment first excess Japan, UK and other traditional foreign investment countries reached \$68.81 billion in 2010, and China has become the world’s third largest foreign investor with \$87.8 billion in 2012 which is second only to USA and Japan, and it reached a historical highest value of \$118.02 billion in 2015.

### 2.2.2 To cover all sectors with foreign direct investment worldwide

China’s foreign direct investment is nearly 80% of countries and regions around the world. By the end of 2014, 18500 domestic investors of China establish foreign direct investment enterprises nearly 30000, which are located in 186 countries (regions) around the world. In 2015, the countries along the Belt and Road has become the focus of foreign investment and cooperation. China companies conducted a direct investment of \$14.82 billion in 49 countries along the Belt and Road. Meanwhile, they also contracted foreign projects amounted to 3987 of \$92.64 billion accounting for 44% in 60 countries along the Belt and Road. Clearly, China’s foreign direct investment is high in the global coverage rate, while also shows the characteristics of the stock of highly concentrated. By the end of 2014, the stock of China’s foreign direct investment reached \$882.64 billion, which increase to \$222.16 billion over the previous year, and improved the share of global foreign direct investment outflows from 0.4% in 2002 to 3.4%.

By the end of 2015, China’s domestic investors conducted successfully non-financial direct investment for 6532 foreign enterprises in 155 countries and regions. From the industry category, the overseas investment of China’s enterprises has \$11.8 billion flowing to the manufacturing sector with an increase of 95.4%, which is mainly in the advanced manufacturing like automotive, special equipment, medicine, computer and communication equipment, rubber and plastic products.

### 2.2.3 To improve greatly in the scale of foreign contracted projects

It is an important part for implementation the Belt and Road to develop foreign contracted projects. Due to the rapid development of international project contracting market and a series of encouragements from China government policies of developing international project cooperation, foreign project contracting business in China developed rapidly and is growing in scale.

China's foreign contracted projects turnover is \$154.07 billion in 2015, which has expanded from the traditional areas like transportation, housing, communication engineering and power engineering to those new areas with high added value like general contracting, project financing, design consulting, operation and maintenance management, new energy and high-speed rail and so on. Above all need the support from logistics activities of transportation and warehousing and so on, which make logistics service in foreign contract projects plays a more and more important role.

#### *2.2.4 To accelerate the foreign investment of electricity, petroleum and manufacturing*

In recent years, these industries of electric power, mining, agriculture and manufacturing are the main industries of China's foreign investment cooperation. These industries have a lot of logistics demand, so their foreign investment not only led to the trade growth of traditional import and export like facilities and equipment, but also stimulated growth of foreign contracted projects while demand for the formation of a full range of international logistics services. Parts of enterprises have been carrying out the extension of industrial chain through developing warehousing and logistics and so on in South American, and the foreign direct investment has been changed trade primarily to industrial chain with the trinity of development, processing and logistics.

#### *2.2.5 To develop rapidly the new trade by cross-border electronic commerce as a representative*

With the development of Internet technology and the change of the international economic environment, cross-border e-commerce has become a new way and mean of international trade, and become a new choice for China enterprises to seek overseas business opportunities as well. According to "2012-2013 China's Cross-border Electricity Supplier Market Research Report", the transaction size of China cross-border e-commerce market accounted for only less than 10% of total China's aggregate trade value, but its growth is very significant. The transaction size of China's cross-border e-commerce market has increased from 0.8 trillion RMB in 2008 to 2.3 trillion RMB in 2012 with an average annual increase of 30.6%. The market size of China's cross-border e-commerce is expected to reach to 6.5 trillion RMB by 2016 accounting for 19% of China's total aggregate trade value. Cross-border e-logistics has become a strong demand for cross-border e-commerce, and high-level logistics enterprises have put their eyes on the market of cross-border e-logistics in order to get more added value.

### **2.3 Policy Environment**

#### *2.3.1 To propose the "go out" of logistics industry for the first time in "Logistics Industry Adjustment and Revitalization Plan"*

As an important producer service industry, it is also inevitable requirement for China logistics industry to actively explore the international market in order to achieve itself transformation. The State Council promulgated "Logistics Industry Adjustment and Revitalization Plan" in 2009, and pointed out that logistics industry should promote continuously opening to the outside world and international cooperation, and accelerate "going out" of logistics industry, which is first proposed the internationalization development strategy from the national level.

#### *2.3.2 To support with superimposition policy the internationalization of logistics industry*

In 2011, the Ministry of Transport and the State Postal Bureau were issued "Twelfth Five Year Plan", which support domestic enterprises to expand international air transport and domestic air express business in order to further enhance the level of international cooperation in shipping, air cargo network expansion, cross-border transnational business of express delivery companies, meanwhile enhance the international competitiveness. In 2012, the Ministry of Commerce issued "Twelfth Five Year Plan of Services Trade", which will take maritime transport, air transport, railway transport, road transport, freight forwarding and postal and courier as the key developing fields.

#### *2.3.3 To highlight the international freight forwarding industry*

International freight forwarding industry is an important part of China's trade in services. The Ministry of Commerce issued policies in 2013 to support enterprises to expand overseas business, encourage investment and M&A overseas logistics facilities, and to encourage more enterprises to actively participate in the development of developing countries and emerging market economies.

### 3. Development Status

There are a number of larger logistics enterprises through a variety of ways out of the country like associated with core client, alliance with foreign counterparts, acquisition of foreign logistics enterprises, overseas direct investment and bidding overseas engineering project and so on. These enterprises have become internationally renowned multinational logistics enterprises because of developing vigorously the international flight routes, expanding actively the international network, carrying out diversified business, and innovating emerging business.

#### 3.1 To speed up “going out”

At present, the “going out” enterprises in China are mostly large-scale capital, the strength of high-level management. Among them, representative multinational logistics enterprises are COSCO, CHINA SHIPPING and SINOTRANS LIMITED. Of course, some large transport enterprises like TRAFFICE GROUP OF GUANGDONG, and large private courier companies like SF EXPRESS, also become gradually multinational logistics enterprises. By the end of 2015, five logistics enterprises ascend respectively the China top 100 of non-financial TNCs ranked by multinational index and by the overseas enterprises sales revenue (as shown in Table 1).

**Table 1: China Top 100 Non-financial TNCs Ranked Logistics Enterprises in 2015**

TNI By the end of 2015		Overseas enterprises sales revenue	
Rank	Company Name	Rank	Company Name
4	Guangdong Province Navigation Group CO., Ltd	6	COSCO
6	COSCO	14	CHINA SHIPPING
16	CHINA SHIPPING	16	HNA Group Global
33	Sinotrans & CSC Holdings Co.,Ltd	31	Sinotrans & CSC Holdings Co.,Ltd
40	HNA Group Global	65	Guangdong Province Navigation Group CO., Ltd

#### 3.2 To develop vigorously international flight routes

China ocean shipping companies, airlines and air cargo companies develop actively international flight routes, and constantly improve China’s international transport system in order to serve the development of China’s foreign trade and international logistics business expansion. By the end of 2012, China ocean shipping completed freight volume 638.15 million tons, the capacity of international aviation 1.5652 million tons, and international express delivery including Hong Kong, Macao and Taiwan reached 182.428 million items.

#### 3.3 To expand actively the international network

The implement of “going out” and the Belt and Road gave birth to the huge demand of international logistics network. China logistics enterprises expand their international network mainly through the establishment of direct outlets, agencies and branches, etc.. For example, the service network of China Sinotrans & CSC Holdings Co.,Ltd has covered South Korea, Japan, Canada, USA and other overseas more than 50 countries and regions, and established a business agent and strategic partnerships with more than 400 overseas transport and logistics service providers.

#### 3.4 To carry out diversified business with developing new emerging business

The overseas investment of China logistics enterprises is gradually shifted diversification from focused on its transport services. In addition to the provision of transport services, some enterprises have been developing the overseas fleet, land transport, warehousing, port, as well as tourism and trade in the form of direct investment, overseas project bidding, mergers and acquisitions, strategic alliances, and explore actively new business. For example, SF Express was going SFbuy online in Sep. 2013 to try to the new items of “Cross-border + Sea Amoy”, which provide consumers overseas shopping services and other value-added transport services.

#### 3.5 To go abroad through a variety of ways

China logistics enterprises are engaged in various forms of international development. Some logistics enterprises is going abroad together with China mainland manufacturing which is their core customers, then combined with their strategic layout and network services capabilities to follow their these customers entering into specific market sectors. In fact, there are also some enterprises to enter the international market through strategic alliances with foreign counterparts, or the acquisition of local transportation and logistics companies during the processing of internationalization.

#### **4. Development Problems**

At present, China logistics enterprises have obtained certain achievements in the internationalization development, but it is still limited that can meet the logistics demand under “going out” and the Belt and Road. Especially most small and medium-sized logistics enterprises have still large obstacles and challenges in the competitiveness, international logistics network, funds and talents and so on.

##### **4.1 Weak international competitiveness of logistics services**

Service trade of China has been in deficit from 1995 to 2014, and showed a trend of expansion. As of 2015, service trade of China deficit by \$6.13 billion in 2011 expanded to \$136.62 billion. Among them, the transportation service trade deficit has long been the main source of China’s service trade deficit. Transport services trade deficit reached \$53.1 billion in 2015, second only to tourist trade deficit. This shows fully that the international competitiveness of China’s transportation service is low. Transport services depend more on foreign ships to the carrier, especially because of the lack of important strategic materials such as iron ore, oil and coal transport control of imports resulting in the hidden trouble of energy and resource security in China.

##### **4.2 Small scale with single service function**

There are high requirements in the international logistics market, which not only requires related basic services of door-to-door, but also need provide a set of logistics extending services from procurement of raw materials to delivery products for the consumer in accordance with the management model of integrated logistics and supply chain. However, China’s enterprises engaged in logistics services are relatively small on size and strength with simple service functions. Then, their value-added services are weak as well. So, it is difficult to provide integrated international logistics services.

##### **4.3 Imperfect international logistics network**

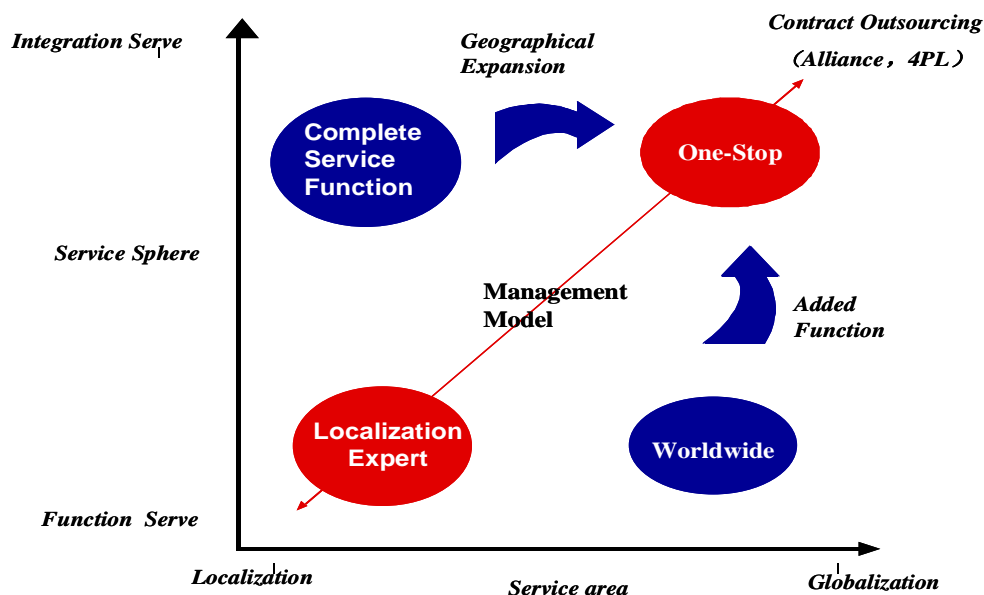
International logistics network is the foundation of international logistics operations. At present, the development level of China logistics industry is still far from the requirement, only a few large-scale logistics enterprises have branches in foreign countries, and the enterprises with international logistics network are less. Those large-scale enterprises generally have only main engaged in international transport operations, lack of foreign terminal distribution system, which result in weaker control and unsmooth operation system, thus affecting the international logistics service capability.

##### **4.4 High barriers to entry of funds and lack of professional talents**

Strong financial strength is an important guarantee to support the internationalization of China logistics enterprises. But many of China logistics enterprises are weak on financial strength, so it is difficult to build international network for implement international logistics service by mergers and acquisitions and so on. Even foreign contracted project logistics, its capital barriers to entry are very high as well. In addition, the lack of a full range of logistics professional talents has become one of bottlenecks restricting China logistics enterprises internationalization.

#### **5. Development Trend**

As the “Internet +” and the strong trend of economic globalization, the high level of logistics services is one of the important supporting businesses to participate in international competition. The prospect of China logistics enterprises internationalization is shown as the below fig 1.



*Fig 1 China logistics supplier prospects*

### 5.1 To speed up to the emerging market and countries along the Belt and Road

With expansion investment in the world of more and more China industrial enterprises, especially in some emerging countries and countries along the Belt and Road, it is necessary that more strength and network logistics enterprises will also go along with these enterprises to these countries. In addition, the infrastructure construction of those countries, like Russia, Brazil, India, Vietnam, Thailand and Africa and so on, will have strong demand on logistics project. It will provide a new development space for the internationalization of China logistics enterprises because of relatively backward logistics capability and service level in the emerging countries and countries along the Belt and Road.

### 5.2 To transition to the new transport services

At present, China transportation service trade mainly include shipping, air, railway and road, etc.. Among them, the trade volume of shipping service account for more than 70% of the total trade volume, especially the import of transportation service is given priority to with shipping accounted for more than 80%. Then, the air freight is second accounted for about 20% of transportation service trade. From the high investment on aviation, railway in China, the object of China service trade will shift to more countries and regions, and the way of transport service trade will also turn to comprehensive of combine with traditional and emerging transportation. In the future, aviation and other emerging mode of transportation will take more cargo transportation services.

### 5.3 To develop emerging business based on the traditional service

With the rapid development of cross-border e-commerce, the scale of cross-border e-commerce logistics will be increasing continuously. Cross-border retail logistics on small batch and multi batch will promote the extension of related professional logistics market like international air transport, LTL LTL and customs clearance and so on. In the future, there will be more logistics enterprises to develop logistics of cross-border e-commerce on the basis of the existing logistics business in order to realize rapid conversion on services fields and patterns. Even more logistics enterprises promote itself internationalization through cross-border e-commerce to become a supplier of integration solution.

### 5.4 To carry out the whole course service cooperating with enterprises at home and abroad

From the point of abroad practice, almost all enterprises related to logistics and transportation is offering full logistics services whether sea, air or land. In the future, the advantage enterprises with high level or business alliance will be form through resource integration and complementary advantages between small and medium-sized logistics enterprises to take the path of internationalization in the form of cooperation. At the same time, logistics enterprises in China will further strengthen the alliance and cooperation with international logistics enterprises, and promote the integration of logistics operation ability to carry out the whole logistics value-added service.

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