

China's Logistics Development: Retrospect and Prospect

Dr. WANG Wei

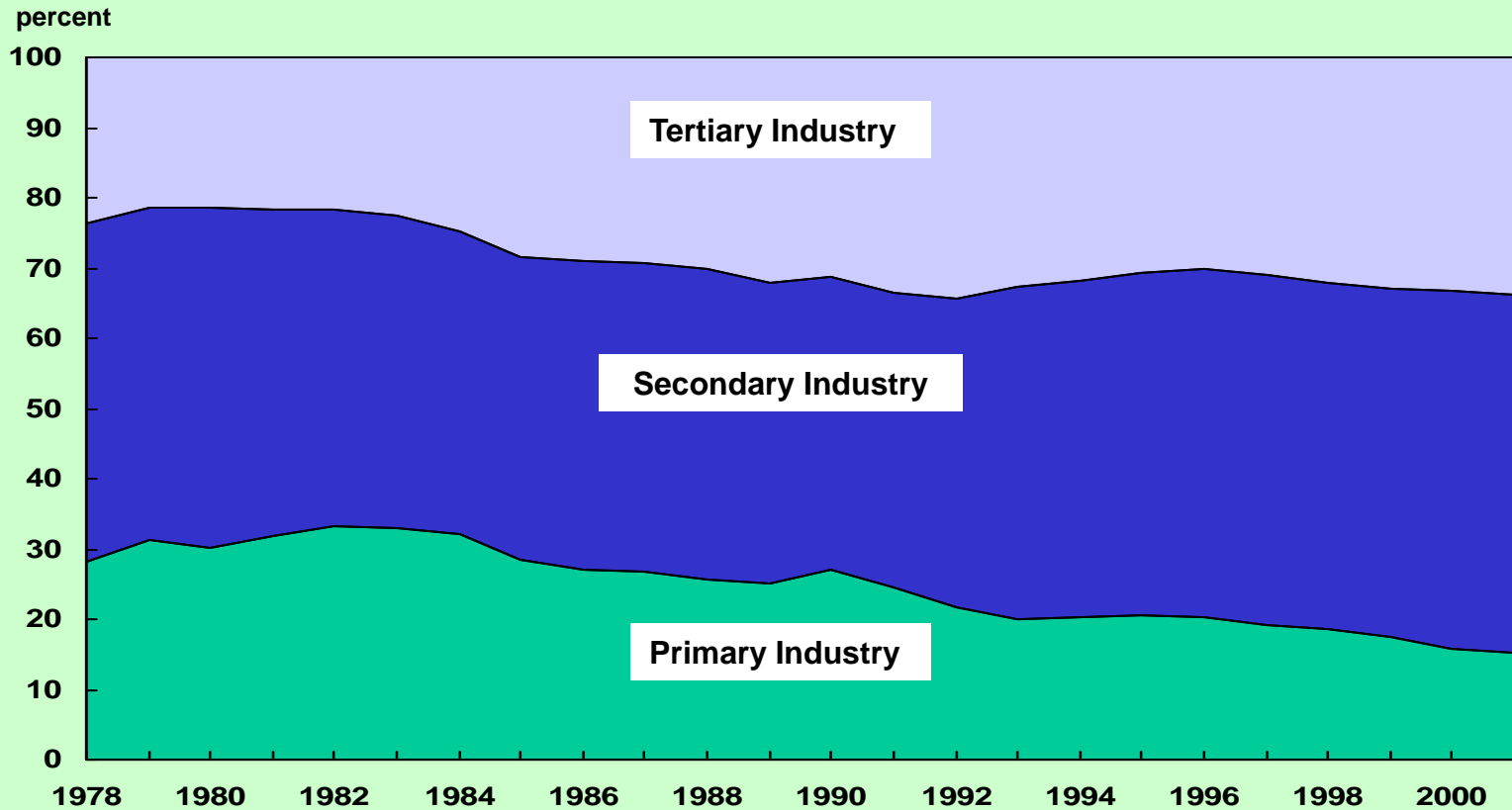
**Market Economy Research Institute
Development Research Center (DRC)
The State Council of P. R. China**

A. Under-development: Overview of China's service sector

- Service sector has been the second largest contributor to GDP and employment
- Growth of the service sector moved onto a slow track since 1990
- Price index for services has risen persistently

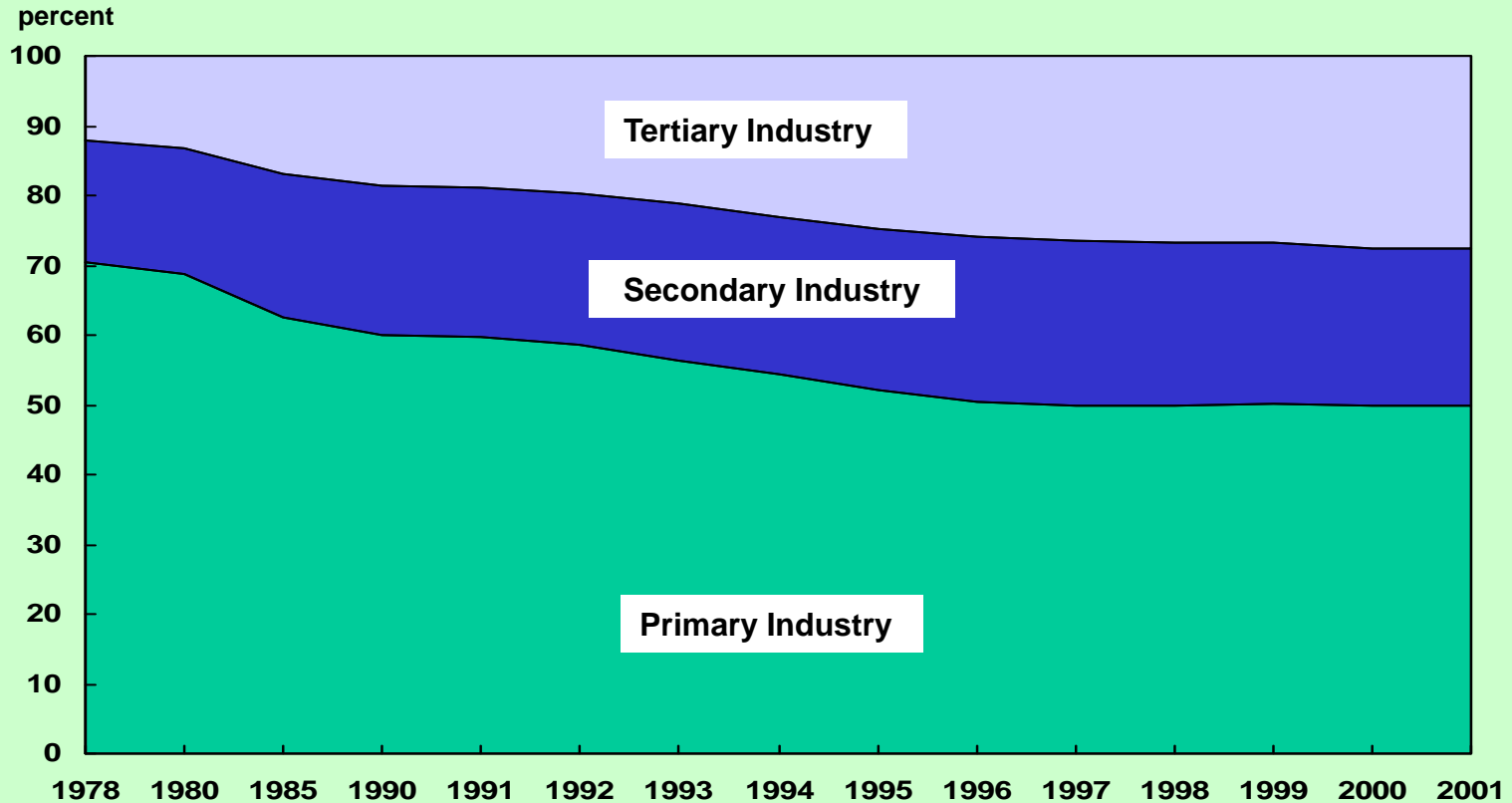
Service sector has been the second largest contributor to China's GDP and employment

Contribution of the Three Industrial Sectors to GDP, 1978-2002



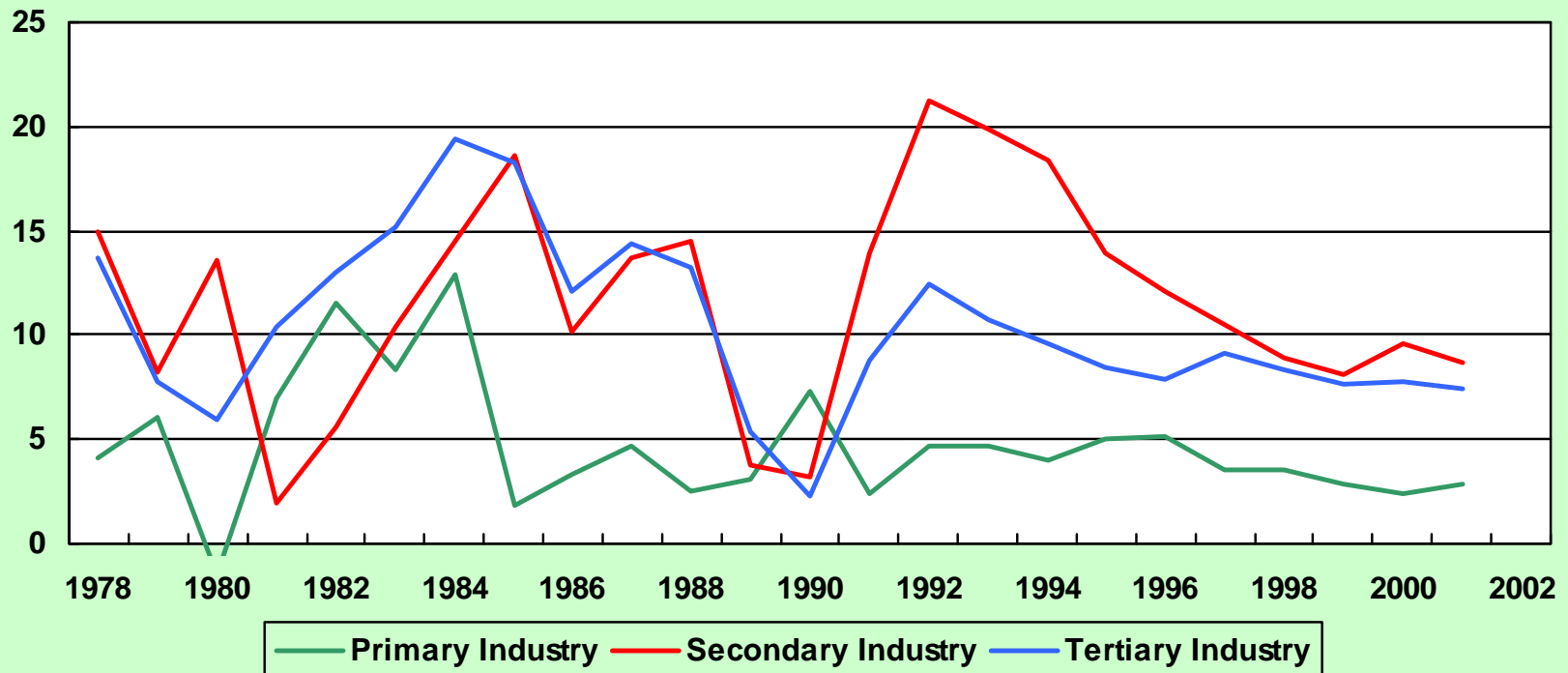
Service sector has been the second largest contributor to China's GDP and employment

Employment Composition of China's Economy, 1985-2001



Service sector growth turned onto a slow track since 1990

Growth Rates of the Three Industrial Sectors, 1978-2001



The consumer price index for services has risen persistently since 1990 at double the rate of the rise in the overall consumer price index:

16.8% per annum

versus

7.5% per annum

A. Under-development: Overview of China's service sector

- International Comparison
 - Most developing countries have a substantially higher share of services in the national economy.
 - The proportion of traditional service industries is comparatively high in China's service sector.

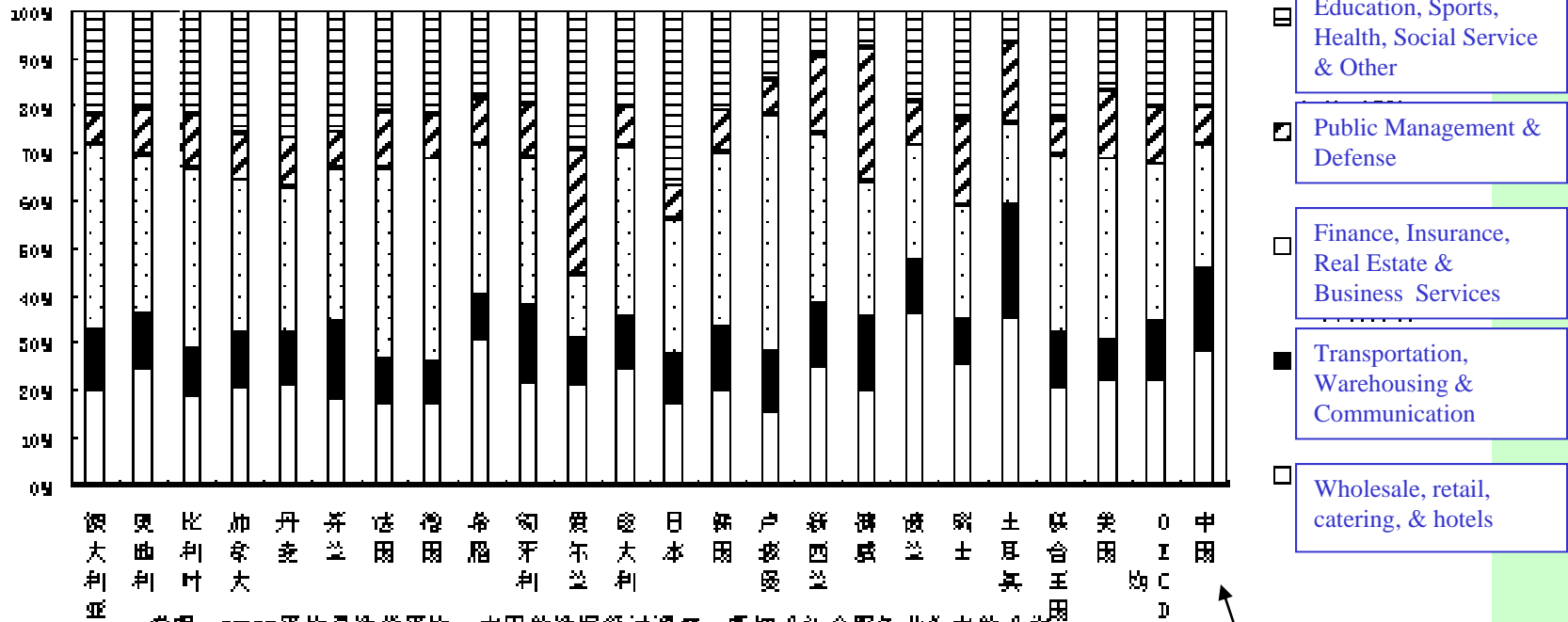
Comparison of Service Output in Selected Developing Countries

Country	GDP per capita (US\$, PPP)	Contribution of Service to GDP (%)
India	2060	46
Indonesia	2407	35
Jordan	2615	71
Albania	2864	21
Sri Lanka	2945	51
Ukraine	3130	51
Morocco	3188	51
Jamaica	3344	58
Philippine	3725	51
China	3291	33

Source: World Development Indicators, WBG 2000

Comparison of Service Industry Composition in China and OECD Countries (1998)

服务业增加值比较图



说明: OECD平均是数学平均; 中国的数据经过调整, 既把“社会服务业”中的“旅游业”移到物流类, 将“社会服务业”中的“其他社会服务业”移到金融商业服务类, 因为其他社会服务业中多数是各种商务服务业。

China

OECD average

B. Current Characteristics

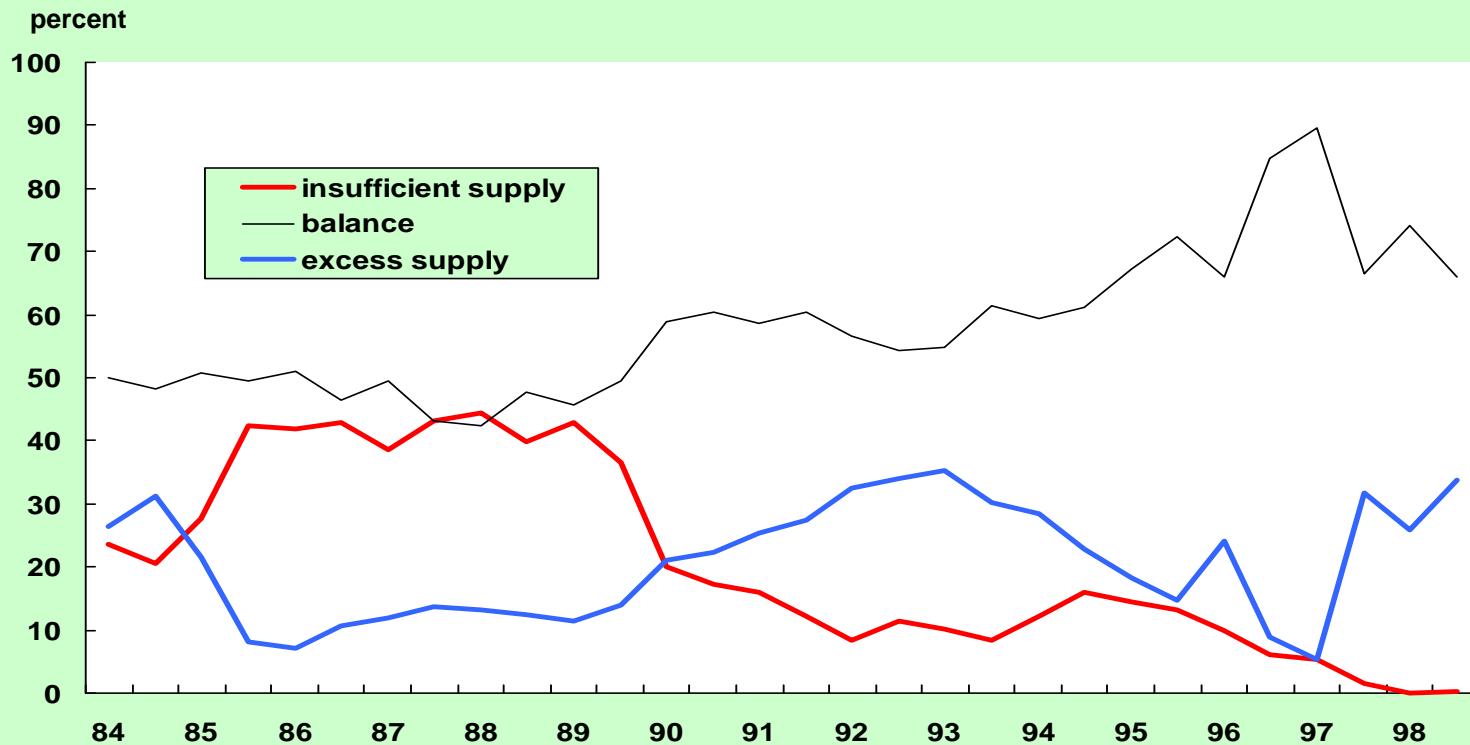
- **Logistics Concept:**
Logistics involves the planning, implementation and control of the flow and storage of goods and concerning service from the origin of supply to the final consumption to meet customer's requirement
- **Logistics service is viewed as an emerging business service industry world wide**

- **Main drivers of China's logistics development**

- Significant change in market structure: from shortage of supply to over-supply
- Intensified competition: from monopoly by SOEs to diversified market participants
- Increasing openness to the outside: from closed economy to integration into the world economy

Trend in the Structure of Main Consumer Goods Market, 1984-99

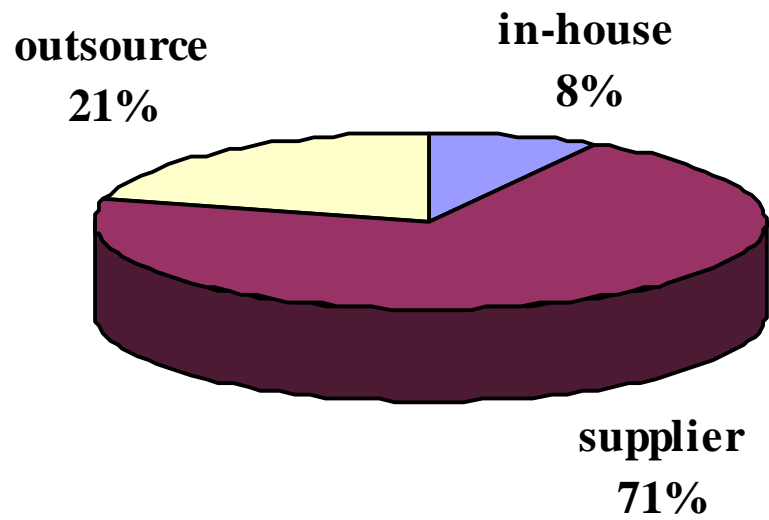
Share of Consumer Goods by Supply Condition



B. Current Characteristics

- **China's logistics industry is still in its infancy**
 - **Most logistics services are handled in-house, while outsourcing of logistics is growing**
 - **Oversupply of single-function service providers versus fewer but fast-growing 3PL, or contract logistics providers**
 - **Logistics infrastructure has developed fast but not sufficient to logistics development**
 - **Logistics has received unprecedented attention in China since 2000**

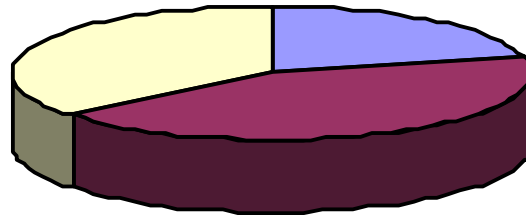
Logistics Providers for Manufacturers: Raw Materials (2000)



Logistics Providers for Manufacturers: Finished Goods (2000)

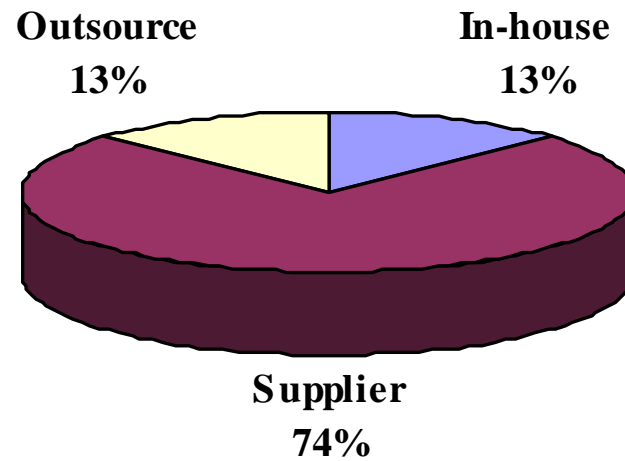
**Jointly in-
house and
3PL
36%**

**Outsource
21%**



**In-house
43%**

Logistics Providers for Commercial Enterprises (2000)



Constraints and Problems

- Constraints from market demand
- Constraints from limited service formats and relatively backward management
- Constraints from low efficiency due to under-developed logistics infrastructure and IT technology applications
- Constraints from regulators and the economic system
- Constraints from the lag in research work and the lack of professionals

Regulatory Framework for Sub-sectors with Foreign Participation

Sector	Foreign participation	Authority for license approval
Int'l freight forwarding	Regulated	MOFTEC
Air freight forwarding	Regulated	CAAC, MOFTEC
Logistics center	Encouraged	MoC, MOFTEC
Domestic trucking	Regulated	MoC, MOFTEC
Consolidation	Regulated	MoC, MOFTEC
Warehousing	Encouraged	MoC, MOFTEC
Custom brokerage	Heavily regulated	CGA, MOFTEC
Shipping line	Regulated	MoC, MOFTEC
Airlines	Heavily regulated	CAAC, MOFTEC

C. Logistics and Economic Development

- Logistics is viewed as a facilitator of growth

Logistics as Facilitator of Growth

- **For a company:**
 - **Facilitates the reliable and cost-efficient movement of goods**
 - **Increases overall product competitiveness and availability**
 - **Reduces capital tied up in inventory and other assets**
 - **Improves customer service and enhances customer loyalty, confidence**

Logistics as Facilitator for Growth

- **For a national economy:**
 - **Contributes to GDP and employment**
 - **Increases efficiency and effectiveness of business operations as well as resource allocation**
 - **Improves competitiveness of manufactured products**
 - **Enhances national infrastructure development**
 - **Benefits development of other economic sectors**

D. Prospects and trends for China's logistics industry

- Prospects
 - Huge market: different estimates of potential market scale
 - Exponential growth
 - Market segmentation with great potential

Huge Market Potential Calling for Efficiency

	China	Other Countries
Total logistics cost/GDP, 2000	20%	10% (U.S.)
Accumulated inventory/GDP	10%	3.8% (U.S.)
Working capital turnover -- manufacturing	1.2 times (SOEs)	15-18 times (MNCs)
Working capital turnover-- commercial	2.3 times (SOEs)	20-30 times (MNCs)

D. Prospects and trends for China's logistics industry

- Trends
 - From segmentation to integration
 - From fragmentation to consolidation
 - From basic logistics to value-added
 - From local to national, regional, and even global

E. Policy Recommendations

- *Set guidelines and overall objectives for the industry*
- *Strengthen coordination among different government regulatory departments*
- *Optimize logistics management within enterprises*
- *Promote the development of "3PL" services*

E. Policy Recommendations

- *Enhance application of IT-tech and the standardization of the logistics industry*
- *Strengthen logistics research and improve training and education for logistics professionals*
- *Take the advantage of the role of logistics associations*