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# China state shipping to get bigger and stronger

## Overseas expansion will pick up pace as policymakers put emphasis on state-owned capital

CHINA Cosco Shipping Group chairman Xu Lirong was a member of the Shanghai delegation for the 19th congress of China's Communist Party, and has now shared what he extracted from the meeting.

With China's growing role in global governance, Chinese state-owned enterprises must unswervingly grow larger and stronger, setting the 'game rules' in their respective sectors and having a bigger say in the international arena, Mr Xu, who heads the country's largest state shipping conglomerate, told China Economic Weekly.

If that was Mr Xu's key takeaway from the congress, those keeping an eye on China's rising shipping power and rapid moves in overseas acquisitions should listen.

The idea was already in the report addressed by President Xi Jinping when he lifted the curtain on the party congress: "[We will] make state-owned capital become stronger, better and larger."

The policy is not new, except it was "state-owned enterprises" – not "capital" – in the previous wording.

The distinction is subtle, but the use of "state capital" could suggest more overseas mergers and acquisitions to come.

During his interview, Mr Xu gave the Chinese reporter an example. Cosco Shipping has, over the past few years, invested around Yuan9.3bn ($1.4bn) in 10 overseas ports alongside the Belt and Road regions, which include Singapore, Egypt, Turkey, Greece, Spain, Italy, the Netherlands and Belgium.

Mr Xu was obviously being modest. His company's $6.3bn takeover of Hong Kong-based liner shipping company Orient Overseas International Ltd has won approval from the US competition authorities. There is even talk about acquisition of another major container carrier in the pipeline.

Cosco Shipping Energy Transportation, the conglomerate's oil and gas shipping arm, is looking at buying a foreign tanker owner, preferably in Greece, according to industry sources close to the company.

The Chinese giant is keen to expand its scale, especially in the very large crude carrier sector, but has concerns over ordering new tonnage that can put further pressure on a desired market recovery.

In addition to the anecdotal evidence on M&A, the direction of China's economic policy, for which the party assembly has set the tone, will certainly have an impact on broader market prospects.

Emissions reduction and capacity cuts remain on the core policy agenda, which has triggered some concerns over iron ore and coal shipping.

"In general, the outcome of the Congress is not good for the long-term outlook of dry bulk demand growth," said Stifel. "Reducing emissions, reducing excess production capacity, and shifting to more sustainable economic areas unquestionably means less coal and likely means less iron ore imports."

The good news, however, was that the liquefied natural gas shipping markets would likely benefit from the clean energy drive, the consultancy added.

Owners and operators of LNG carriers could probably cheer up, but do not forget that Cosco Shipping and its joint venture partners own a fleet of 14 vessels in this sector, with 20 more on order.

> *The use of 'state capital' [in Beijing's policy wording] could suggest more overseas mergers and acquisitions to come*