

**CHINA'S SHIPBUILDING INDUSTRY:
AN UPDATE**

YANG Mu & ZHU Jinjing

EAI Background Brief No. 592

Date of Publication: 13 January 2011

Executive Summary

1. China is the No.1 shipbuilding country in the world. As at end October 2010, China's production completion of shipbuilding was 50.90 million deadweight tons (dwt), an increase of 58.4%, and new orders of the industry were 54.62 million dwt or 2.9 times that of the same period last year, respectively.
2. In the past two years, China's shipbuilding industry was severely affected by the financial crisis. It experienced significant slowdown in production completion, cancellation of existing orders, and huge drop in new orders in late 2008 and 2009.
3. In helping the industry overcome its difficulties the State Council passed the "The Plan on the Adjustment and Revitalization of the Shipbuilding Industry" in February 2009 with three critical targets: 1) Stalling the declining demand; 2) Promoting mergers and acquisitions (M&A), and restructuring; and 3) Encouraging indigenous innovation and R&D.
4. Currently, three types of firms make up China's shipbuilding industry: 1) large SOEs with mega-size production and technology capacity; 2) small private shipbuilding enterprises in the coastal provinces; and 3) joint ventures of foreign and domestic companies.
5. Two mega parenting conglomerates dominate China's shipbuilding industry. CSSC (China State Shipbuilding Corporation) handles shipbuilding activities in the east and the south, while CSIC (China Shipbuilding Industry Corporation) handles those in the north and the west. They are directly under the supervision of the central government.
6. To sustain demand, the government encourages banks to provide more financial support and credit loans to both domestic and foreign enterprises, and to stimulate the domestic shipbuilding market through more investment on

infrastructural ships and high-tech ships such as maritime engineering products.

7. To restructure through M&A, the Plan aims to strengthen the global competitiveness of CSSC and CSIC, promote integration of large enterprises in the value chain and encourage SMEs to go into niche areas. Although the government intends to provide capital fund, financing and credit loans for the restructuring, there has been little progress.
8. On promoting indigenous innovation and R&D capability of domestic enterprises, apart from improving existing ship models, China will invest more on high-tech and high value-added technologies such as environment-saving and energy-efficient shipbuilding, maritime equipment projects, and critical internal equipment within ships.
9. China is also developing its offshore drilling rig industry as a future alternative to traditional shipbuilding. Many large enterprises in China are starting their production of rigs for both domestic and foreign orders.
10. Since 2003, China has been constructing the world's largest shipbuilding base in the Changxing island, a deep water coast in Shanghai; the base is expected to be completed by 2015. China is also said to have plans to build medium-size aircraft carrier in the Changxing base.