

The Changing Role of Chinese Parties in Global Logistics; the example of Parchim International Airport (Germany)

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Summary

There are many arguments to look at the development of Chinese participation in transport infrastructure in Europe and its impact on commodity flows within Europe. There are concrete acquisitions in airports and container terminals in Europe who took place the last few years. Parchim International airport in Germany is one of them. At the moment China is the third foreign investor in Europe. The percentage of the FDI from China in Europe is growing rapidly over the last 5 years. The impact of this development on commodity flows and the organization of logistic activities is not clear. Three themes for further research are distinguished. Firstly the cultural differences between Chinese and Western firms in the way they act and collaborate on new markets abroad. Secondly the role of the (Chinese) state in investments in infrastructure, which make it possible for Chinese firms to do long-term investments, that would not be possible for Western private enterprises and thirdly the EU policy towards foreign investments in infrastructure in Europe. There is a need for further research to get a better view on this development and the consequences of this.

1. Introduction

The acquisition of Parchim airport, Germany, a number of years ago, by a Chinese logistic service provider, and the concession obtained by a large Chinese shipping company (COSCO) to operate and expand the container terminal at Piraeus, Greece, may well be signs of a development that can have a significant impact on existing logistics structures in Europe.

In order to judge whether a valid research theme here presents itself, two preliminary questions will have to be answered.

Firstly: how can one be sure that the Chinese interventions in Parchim and in Piraeus are not

mere incidents and not indications of a more structural development?

Second: why here singling out China and not looking at one or more other countries?

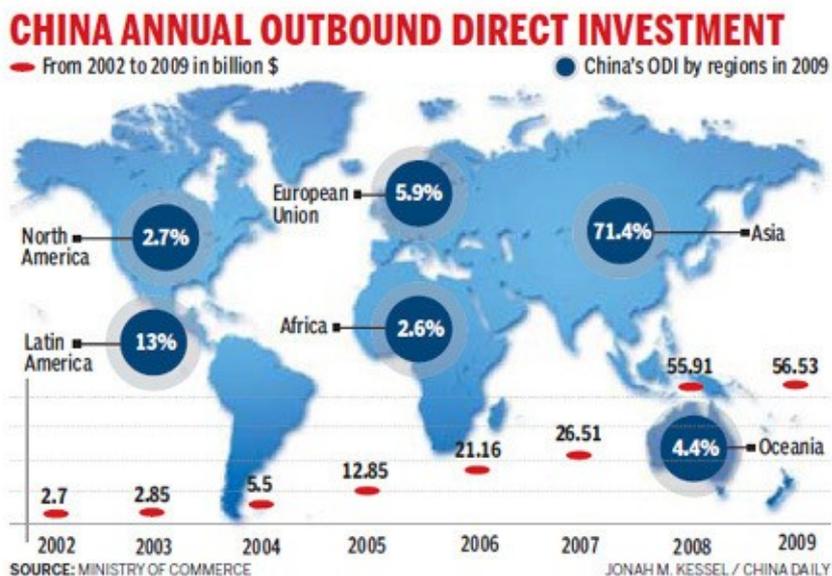
Regarding the first question – should the two dealings of Chinese firms with transport terminals in Europe be seen as incidental or not – the following may be put forward. In Africa Chinese contractors build infrastructure, but do not exploit it.

The conclusion is, that it cannot be taken as certain that similar actions as those for Parchim and Piraeus will follow elsewhere in Europe. On the other hand, there is a reasonable probability that indeed this will be the case – and then even on a relatively large scale. This may be judged sufficient reason for looking into the possible consequences of a strategy by Chinese firms as the one exemplified by the Parchim and Piraeus cases.

Now, the second preliminary question: why here focusing on companies from China?

There are two – complementary – answers to this question. The first of these relates to Chinese foreign direct investment (FDI).

Chinese FDI presently is relatively low when related to their GDP. This is only 3 % of world total FDI (World bank, 2010). The “Go Global” strategy of the Chinese government, after China became a member of the WTO in 2001, aims to have more Chinese multinationals in the top 100 worldwide. The Chinese government makes it easier to invest abroad. Over the last five years, FDI in Europe by Chinese firms increased fivefold. This may be considered sufficient reason for assuming that further growth may be expected.



Chinese FDI from 2002 till 2009 (MOFCOM, 2010)

The significance of this for Europe may be seen from the fact that about 6% of China's FDI has its destination in Europe in 2009. In 2010 a further growth to 10% was realised. Furthermore, of all foreign investors in Europe, China holds a third position after USA and Japan.

Related to FDI are trade flows. Trade flows grow even faster than investments (Straube *cs*, 2008). Trade flows lead to commodity flows. Commodity flows lead to traffic. Their size and direction can be measured rather easily and related to available infrastructure.

In transportation services itself China is present in Europe. Think of the Hong Kong based Hutchinson Whampoa Group, who owns ECT, the biggest container terminal at the port of Rotterdam. Container lines like COSCO, China Shipping and OOCL have regular services from China to European ports like Rotterdam and Hamburg. Kerry logistics and Sinotrans, both two big state controlled service providers from China have offices in Germany and the Netherlands. Kerry logistics owns rail and port infrastructure in Asia and Australia. The company does not own any infrastructure in Europe. China Southern Airlines has regular flights to Frankfurt and Schiphol (Holland).

The foregoing could not possibly serve to say that there may be no important FDI in Europe – with the consequent impact on the logistics chain - from other countries than China. What may be concluded, however, is that China forms an interesting case for trying to find out what such impact may be.

“China is concentrating its efforts on ports in Greece and Italy and highways that link Eastern Europe to Germany and Turkey, and aims to secure larger infrastructure investments over time,” the New York Times recently reported (November 2010) . Financial facilities of 10

Millard dollar are available for Poland to invest in infrastructural projects (NRC 25th of April 2012).

A second reason why China may be considered to be in a category different from most other countries is the role of the state in the economy. State-owned or -controlled companies play a large role in these investments abroad (COSCO and Sinotrans are important examples of this).

After these two preliminary questions, attention may now be turned to defining what the present paper is about.

To this end, it first has to be stated that, as yet, little research has been done on the role of Chinese parties in the logistics field in Europe. In view of this fact, there will be the following – twofold - aim for the present paper:

1. Reviewing what the available literature has to say about possible future action by Chinese parties in the logistics field in Europe and, more specifically, about the consequences of such action.
2. Making some suggestions for further research into the consequences for the logistics supply chain in Europe of Chinese action with regard to terminal facilities for transport.

The further set-up of this paper is as follows.

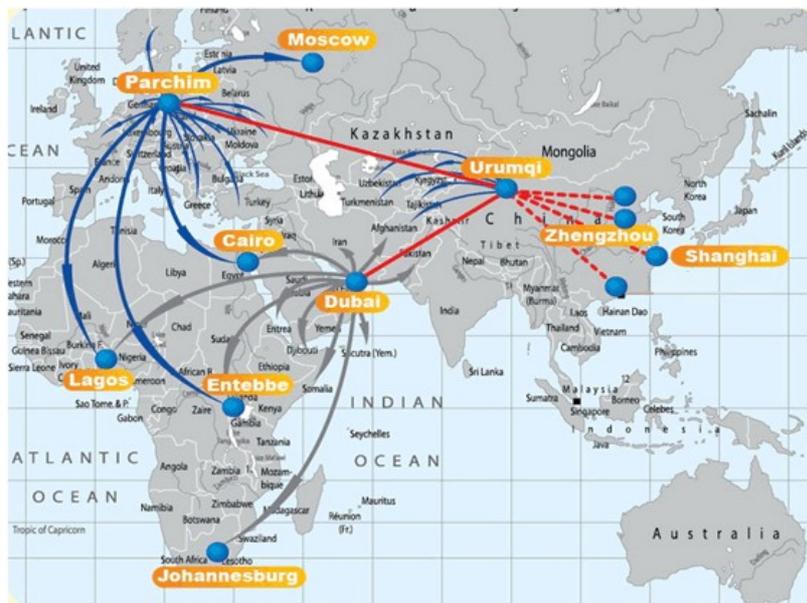
Par. 2 deals with Parchim airport. Next, par. 3 describes developments in trade and supply chains. Finally, par. 4 formulates some questions for further research.

2. Parchim Airport

The airport in Parchim, not quite halfway between Hamburg and Berlin in Northern Germany, is a former military airport. It was built under the Nazi regime. After 1945, it was used by the Soviet occupying forces. After the downfall of the Berlin wall, the federal state of Mecklenburg-Vorpommern has tried to bring new life to this airport. It has first been used as a passenger airport, for flights to the Mediterranean area. That however, proved not to be successful. In 2007, a tender was set up to sell the airport, inclusive of surrounding land of more than 60 hectare (150 acres). There is one runway of 3000 meters (1,86 miles), suitable for wide-body airplanes, like Boeing 747. There are customs facilities and the airport is 24 hours open for operations, with no restrictions for flights at night.. UPS was interested, but also the airport of Hamburg, which had capacity problems. The best bid, 30 million Euros, however, came from a Chinese logistics service provider, Link Global Logistics, based in Beijing. This company is a middle-sized party in China, but internationally orientated.

It has a 30% share in the airport of Zhengzhou, named Zhengzhou Xinzheng International Airport. Zhengzhou is the capital of the province of Henan, with a population of 100 million

people. Henan is the 5th economy within China. The airport is the 20th of China with 8,7 million passengers (2010). Link Global logistics offers ground services under the name of Oriental Sky Services on several airports in China and abroad like Dubai, Frankfurt and Parchim.



Possible network via Parchim (source: website New Link Global Logistics)

At Parchim International Airport, about fifty people are employed. Two of these are of Chinese nationality, the others are German.

Since 2007, a connection by air has been set up between Zhengzhou and Lagos, Nigeria, leading via Parchim. Three full freighters enter Parchim each week. Also a rail-air connection between several areas in China via rail to Urumqi (North-West of China) has been set up.

There, transshipment takes place to a full freighter, with destination Parchim and afterwards to Lagos. This connection can compete in price and travel time with the sea-air connection via Dubai to Frankfurt (see www.flughafen-parchim.com). Warehouses are being developed.

There is an cooperation with the Goodman Group from Australia, second largest developer of Industrial real estate. Also, at this time, a new traffic tower is being build (Schweriner Volkszeitung, 2012). One of the ideas for further development is to set up a bonded area and facilities for Chinese products that are “made in Germany”.

Finally, a permit has been requested for the building of a hall of 10.000 square meters. Recent newspaper articles show that financial problems can also affect Chinese parties. There has been made new financial arrangements between the government of Mecklenburg-

Vorpommern and Link Global (Airlines.de, 2012).

Aims of the acquisition of Parchim Airport by Link Global are to give Chinese manufacturers a more easy access to the German market and to facilitate the export of high quality products from Germany to China.

3. Global Supply chains

This paragraph will briefly sketch the place of Chinese economic activity within global supply chains. In this, a distinction will be made between commodity chains and transport chains. The first refers to the size, the composition and the distribution across regions of the world of commodity flows. The second looks at the modes of transport that serve these flows.

Commodity flows

In the course of the last thirty years, Western firms have often outsourced their production to low-wage countries like China. The open door policy of Deng Xiaoping made this an attractive option for China.

“In 1978 the total value of China's import and export was only 20.6 billion U.S. dollars, ranking 32nd in world trade and accounting for less than 1 percent of the world's total. In 2010 the total value of China's import and export reached 2.974 trillion U.S. dollars, 144 times as much as that in 1978, averaging an annual growth of 16.8 percent. In 2010 the total value of China's export was 1.5778 trillion U.S. dollars, showing an a 17.2 percent annual growth on average, and the total value of its import was 1.3962 trillion U.S. dollars, showing a 16.4 percent annual growth on average. In 2010, the total volumes of China's export and import accounted for 10.4 percent and 9.1 percent of the world's total, respectively. By the end of 2010 China had been the world's largest exporter and second-largest importer for two consecutive years.” (White Paper, 2011)

The above makes clear that China is the largest exporting country in the world. Most Chinese export is related to the Asian region (MOFCOM, 2011). In this region China takes a third place, behind Japan and South Korea who are taking the first two positions.

In any case, international trade appears to be of much importance for China.

The role of China in the chain of raw materials is rather clear. Investment in infrastructure in Africa by financing infrastructural projects (the Angola model, infrastructure for oil) and in contracting to build infrastructure and South America, Brazil in the first place, are evident (Worldbank, 2010). They provide a way to transport the materials to China.

Japan and South Korea are as importing countries for China the most important. For machineries and transport vehicles, Germany – where Parchim airport is situated - holds a sixth position.

If one compares the different regions that trade with China, much difference can be found regarding their function. Thus, Africa, Australia and South America are sources for raw materials. The Asian region for export of own brands.

North America and Europe both are destinations for the export of in China produced Western brand commodities. Exports from China to the EU are about 20 % of China's total export.

It should be noted that only part of these exports consist of original Chinese products. Most of it are products of Western firms that use China as their “factory”. Exact figures of the relative shares of these two categories are not available.

Recently production is also transferred due to market distance and cheap alternatives to Eastern Europe closer to the market. Even Chinese firms have production locations in that area. For instance TCL in Poland, Hisense in Hungary, Foxconn, Changhong in the Czech Republic. Products are electronic equipment like LCD screens and televisions. These firms do not produce under their own brand names, but work for Western firms or operate as joint ventures with European partners (Nicolas & Thomsen, 2008).

China-EU trade, 2009

Exports (to China)		Imports (from China)	
€ 242 mild		€ 282 mild	
Germany	43%	Germany	21%
France	10%	Holland	16%
Italy	9%	UK	14%
UK	7%	Italy	10%
Holland	6%	France	9%

Source: Eurostat, 2010

Within Europe, Germany is China’s most important trading partner. As for imports from China, The Netherlands hold a second position. Imports mainly consist of products of Western brands.

No figures are available for Chinese brands that enter the European market. If one looks in the

stores, however, one gets the impression that the share of the latter is growing, though still relatively small. Brands like Huawei, ZTE, Haier can be found. Products like modems, GSM's and televisions are available.

Transport chains.

Transport from China to Europe takes place by ship, air or a combination of both (sea-air). The port of Rotterdam holds a strong position in container traffic to Europe. 30% of this is Asia-related (Port of Rotterdam, 2011). In exports from Europe to China, the port of Hamburg holds the strongest position.

Recently, also new connections by rail have been created. Thus, for instance, between China and the ports of Antwerp, Belgium, and of Hamburg, by the German railway company for



freight transport, DB Schenker, on behalf of Siemens (see Fig. 1).

Figure 1 Rail connection Europe-China

Source: Fujitsu-Siemens track Hamburg-Beijing

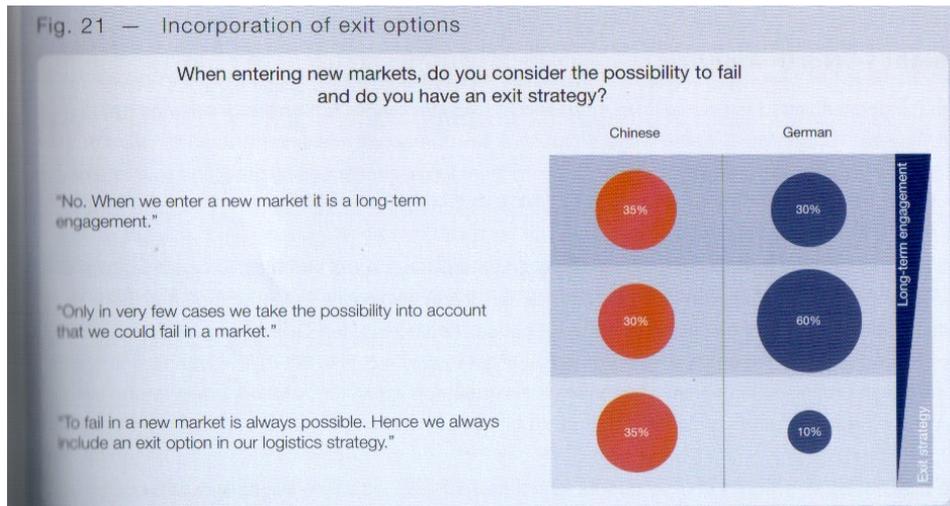
4. Factors that influence global Supply Chains in Europe by Chinese parties

Culture differences

Cultural aspects and level of development of the logistics in their our country play a role in how companies organize their logistics abroad (Straube, 2008). Within China, logistics is poorly developed. High costs for permits and damage of goods are regular. When Chinese companies go abroad, one therefore finds much the same behaviour. They need foreign partners to perform better. However, this can be temporary. Structuring and standardization is for Chinese firms much more important than, for instance, for German firms that go abroad. In so far as this is a cultural aspect, one may assume that it will last.

Cross-cultural logistics still is in its infancy (Luo, van Hoek & Roos, 2001). Economic

structure, culture and logistic infrastructure are key elements in this type of analysis. Research had been done for Japanese firms in Europe (Shinohara, 2006). Outsourcing and integration and consolidation are described. This can be interesting, for Japan penetrated the European market already thirty years ago. The risks that Chinese firms take are bigger than German firms. The orientation period for going abroad is shorter and they calculate that it can go wrong (Straube, 2008). The fact that China is a technocratic and centralized governed country will influence the way they go abroad. With whom will they work together?



Straube c.s., 2008

Another aspect is the reason why firms go abroad. Is it for growth, cost reduction, competitive advantages, politics or innovation? The last two are more important for Chinese firms (Straube c.s., 2008). The “go global strategy” aims to give Chinese firms a stronger position on the international market. This has to do with penetrating bigger markets. Europe and the US are important as a big consumer market.

Chinese state influence and the impact on investments in infrastructure.

With the “go global strategy” the Chinese government gave more space to private firms to invest abroad. The government is merely a guide, supporter and service provider. More authority has been given to local governments (Nicolas, 2007). ODI, foreign investments are still dominated by state owned companies. Although the share of private companies is increasing since 2002. The only investment in Europe mentioned in this article in logistics is Parchim Airport. From foreign investments 1/3 of the firms lost money, of all joint ventures 2/3 failed (Deutsche Bank, 2006). The investment in Parchim, although completely bought by Link Global can be seen as a special kind of collaboration, with the market knowledge of the Germans. Private investments in infrastructure are rare in Europe. If Parchim Airport will be successful is still a question. Regional airports can only survive if they have at least 500.000

passengers (Deutsche Bank, 2005). There is no information about freight airports.

It seems that China likes to control its transport-chains. Parchim, but also Piraeus, give possibilities to do so. And to lead commodity flows through these nodes.

EU policy towards (air)ports,

Foreign investments are seen as an important factor in the economic development of the EU. There is no specific policy towards foreign investments in infrastructure, like ports and airports. Privatisation of airports makes it possible that airports can be purchased by foreign parties. There are many privately owned (small) airports in Europe. In the UK, Spain and Germany. Flughafen NiederRhein, owned by Dutch investors is another example in Germany.

The EU commission will intervene if a fair competition is disturbed and if there is a market dominance of one big party. If Parchim airport has regular fares no action from the Commission is required.

The amount of FDI from China in Europe is still small. A firm grow is released the last years and is expected to grow on. Investments are not always successful. Cultural aspects play an important role in how cooperation takes place. Risk taking by Chinese enterprises to gain new markets and the role of the state are different from German companies.

5. Further research

Within the field of further relevant research there are three themes to be mentioned.

Cultural differences that influence the way Chinese parties operate on new markets.

The role of the state in foreign investments

EU policy towards foreign investments in infrastructure.

Ad 1 Cultural differences

Straube cs shows that there is a difference in how Chinese and German enterprises enter new markets. Chinese parties take less time to consider a step abroad. Also outsourcing is less common. And the importance of logistics is seen as an important factor in success abroad.

Ad 2 State influence

State owned companies have two goals when they enter new markets. Strategic and commercial.

If the state is financially participating, it influences the need for revenues from the investment. A long term of negative revenues can be beared in that way.

In what way is the state participating?

Ad 3 EU policy

At the moment there is no other policy towards foreign investments in Europe, than that they are part of the economic development of the EU. They are considered as a positive contribution independent from which country the investment comes.

Research on the field of the behaviour of Chinese logistics companies operating outside China is still in a beginning stage. The acquisition of Parchim Airport shows this is also a field on which Chinese parties are active.

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