

Some Observations on Development of Chinese Air Cargo Market

Yimin Zhang

China Europe International Business School
Shanghai, China



Growth of air cargo market in China

- In 1995, airports in mainland China handled 1.32 million tons of cargo
- In 2005, airports in mainland China handled 6.33 million tons of cargo
- 1995-2005, average annual growth 17%
 - 1.9 times of average GDP growth over the same period

Domestic cargo and international cargo

- In 2005, total 6.33 million tons of air cargo
- 3.87 million tons from domestic routes
- 2.46 million tons from Hong Kong, Macao and international routes
 - HK and Macao routes 0.4 million tons
 - International routes 2.07 million tons
- 1995-2005, average annual growth rate on international air cargo was 21.5%
- In comparison, average growth rate on China's total merchandise trade was about 18% over same period

China's air cargo and airlines

- In 2005, Chinese airlines carried 3.07 million tons air cargo
 - 1995-2005 average annual growth rate was 16.2%
- In 2006, Chinese airlines carried 3.4 million tons air cargo, 11.5% growth over 2005

- In 2005, on HK, Macao and international routes
 - Chinese airlines' market share for air cargo was about 24%
 - Foreign (including HK and Macau) airlines' market share was about 76%

Planned development of air cargo market in China

- By 2010, Chinese airlines expected to carry cargo 5.70 million tons
 - Annual growth rate in 2006-2010 expected to be 13%
- China's air cargo sector development
 - At present – simple cargo transportation
 - In the future – modern logistics including transportation, warehousing, processing, packaging, distribution, etc.

China's air cargo policy I

- Reduce domestic regulation
- Encourage all-cargo air carriers
- Encourage developing hub for air cargo
 - Tianjin, Shanghai, Guangzhou, Shenzhen, Wuhan, Kunming to develop first
- Reform approval procedure for domestic cargo routes and flights
- Reduce regulations on import/lease of cargo aircraft
- Reduce regulations on entry to ground services
- Improve market monitoring, anti-trust, promote fair competition, etc.

China's air cargo policy II

- Gradually open up internationally
 - High priority for opening international air cargo market
- Bilateral agreement with the US, Australia, Thailand, Singapore, India and other countries
 - On routes, capacity, 5th freedom, code-share, charter flight, etc.
- Fedex first set up Asia-pacific-cargo hub in Guangzhou
- UPS signed agreement to set up air cargo hub in Shanghai Pudong
- To open 5th freedom for air cargo in Hainan, Xiamen, Nanjing and Shanghai

Example of Xiamen Airport

- Xiamen airport is the first airport in mainland China to open for 5th freedom in air cargo
- In 2003, Xiamen airport opened 5th freedom in air cargo to Singapore airlines
 - Singapore-Xiamen-Chicago
 - Singapore-Xiamen-Los Angeles
 - 3 all-cargo flights each week
- In 2006, Xiamen airport also opened to
 - Luxembourg-Beijing-Xiamen-Bangkok-Los Angeles

Air cargo market and local economy

- Opening up 5th freedom in air cargo in Xiamen helped stimulate local economic development
- Improved environment for foreign investment
 - 2003-2006, Xiamen attracted 11 foreign logistics firms, 5 warehousing firms
 - Attracted the largest TEF-LCD manufacturer in Taiwan (3rd largest in the world) to set up subsidiaries in Xiamen
- In 2003, Xiamen's exports to the US was \$2.26 billion
- In 2006, Xiamen's exports to the US reached \$8.27 billion, 266% increase over 2003

Looking forward

- China-Japan economic relation
 - China is the second largest exports market to Japan
 - The largest source of imports to Japan
- China-Korea economic relation
 - China has become the largest trading partner to Korea
 - 40% of Korean foreign investment has been to China
 - Korea is the largest source of imports and 3rd largest exports market for Shandong province, very important for local employment and development
- Economic benefits to NEA cooperation on air transportation will surely outweigh costs

Thank you!