

## Shanghai FTA Financial Reform Push Shipping Promotion

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### Abstract

*The relationship between finance and shipping is mutually supporting and mutually complementary. Financial policy, investment, innovation and service promote the development of the shipping. The financial service sectors of Shanghai international shipping center continue to expand from the link to the whole industry chain, service means innovates from traditional methods to new methods, financial services area continue to expand from Shanghai to the Yangtze River Delta, and policies is changing from limited to encouraging. So we should seize the favorable policy the central gave to Shanghai to innovate the financial system and financial services and promote the development of shipping finance.*

**Keyword:** Shanghai FTA, Shipping, Financial, International shipping center

Since 2001, Shanghai has proposed the construction of "four centers" target, the construction of "international shipping center" has received widespread attention. The development of the financial industry plays a crucial role in the establishment of "shipping center". The theoretical and academic circles have extensive research enthusiasm for studies on the dynamic relationship and linkage development between the shipping industry and the financial sector. After Shanghai FTA landing, a series of reform measures have been issued, including the prior to carry and try of free trade and investment and financing channels, currency convertibility, preferential tax, as well as the port integration and so on. All of these will form trade agglomeration effect. If these measures can be effectively implemented, I believe it will bring enormous space for the development of Shanghai port, making Shanghai take a big step forward to the international shipping center goal.

### ***1. The Relationship between Shipping and Finance***

As the financial sector continues to permeate all areas of the market, and investment channels are gradually rich and diversified, more and more enterprises are aware of the tremendous potential for development of the shipping industry. The related investment and financing activities also attract attention from all walks of life. In an open, export-oriented financial system, shipping and finance are complementary and mutually supporting. Without financial support, there will be no strength to construct the shipping; without shipping development, that will weaken the financial survival foundation. The financial industry solves the funding problems for the development and construction of ships, shipping companies and ports, giving full play to its role in the shipping financing, settlement and marine insurance; and the shipping activity is essentially a process of international and domestic funds continued to flow. Therefore, the shipping industry and the financial sector are complementary.

#### **1.1 Analysis of the Dependence of the Shipping on Financial**

The shipping industry is a capital-intensive industry, it needs huge investment, and its payback period is very long, but the amount of capital that the shipping enterprises are able to or willing to pay is limited. Limited equity capital and huge production operation input is a basic problem in the shipping industry and it cannot be avoided.

If this problem can't be solved well, the shipping activities can not be carried out smoothly. The only way to solve this question is that the shipping enterprises must find more external financing, must rely on the financial sector. The financial sector includes commercial or policy banks, and insurance, negotiable securities, affiance, guarantee and so on. In order to solve the investment and financing problems, which are crucial to the development of the shipping industry, the financial sector plays a very important role.

In addition, from the view of the overall operation of shipping industry, financial regulation must be carried out in the shipping industry; otherwise it is difficult to achieve the overall coordination of macro-economic operation. We can judge the running quality of the shipping industry from whether the shipping industry is coordinated at macro operation or not. If the government wants to achieve the coordination of macro operation in the shipping industry, the comprehensive use of various means and tools are necessary, such as finance and taxation, industry planning and financial tools.

### **1.2 Analysis of the Gravity of the Shipping on Financial**

In the process of shipping business, capital flows slow and its flow cycle is long, if the financial industry is involved in the process, it's beneficial to realize the scope of finance.

Because funds flows slow in shipping, which provides a large number of long-term financial business and assets, liabilities for the financial sector. It's conducive to use the rich asset and liability portfolios to realize the best combination of operating risk and return, so as to reduce the operation cost of financial capital, and increase the financial business volume stability.

The shipping industry can not only help the financial industry achieve the scope of financial, but also provides huge space for financial innovation. The shipping market has strong regional characteristics. The shipping markets in different regions have different conditions, financial institutions involved in the shipping industry have to continuously innovate in financial instrument, market and system etc., which is the only way to meet the needs of the shipping industry for financial support in different areas of different market. What's more, due to the displacement of the port, large value of ships, longer production cycles, higher technical characteristics and other requirements, the financial capital will meet more special problems in the integration process with the shipping capital, and only innovation can solve these problems.

Of course, because of the wide shipping market participants and various types of assets operation patterns, financial capital involved in the shipping industry must be able to increase its market share, and penetrate to other kinds of asset.

## **2. The Present Situation of the Financial Service in Shanghai Shipping Industry**

Through the services to the shipping companies and related industry chains, the financial sector and the shipping industry promote each other, enhancing regional economic competitiveness. Form the international experience; most of the world famous shipping centers are developed with the support of financial industry. Many shipping centers are also world or regional financial centers, such as New York, Rotterdam, Singapore. From the perspective of Shanghai, financial services have weaknesses in supporting the development of shipping.

### **2.1 The Category of Financial Service is Single, Financial Innovation is Slow**

At present in Shanghai, the main financial institutions servicing for the shipping industry are the banking financial institutions and insurance institutions, others like funds, trust and intermediary institutions are relatively lack. Banking financial institutions only provide loan services related to the port construction and ship building with large credit amount, excessive mortgage, and single loan type. The structure is unreasonable. Besides, insurance categories are lack of innovation, and the shipping insurances are limited to the traditional cargo insurance, hull insurance, and personal insurance. Import and export insurance, marine safety insurance and so on are rarely involved, which are linked to the shipping development. Insurance coverage is too narrow, and the claims procedures also need to be improved.

### **2.2 The homogenization phenomenon of financial services is prominent, the financial derivative function lags.**

The shipping industry is growing stronger, the resulting financial service requirements differ in thousands ways.

Not only port infrastructure and public information platform, freight center, ogistics park and other supporting facilities construction need financial services, enterprises in lingang industrial park also have a need to investment and financing. In this context, the rapid development of shipping industry will inevitably derived a lot of financial service requirements. But at present, the securities market is the main channel to raise money for the ports and shipping industry in Shanghai, other financing channels are less. The financial institutions (mainly refers to the banking financial institutions) focus on the project "bridge loans" and the enterprise working capital loans for the development of the Shanghai shipping industry.

This phenomenon not only makes the homogeneity competition between financial institutions, also makes many personalized services unwanted, including trade finance and logistics business, forming financial service vacuum belt.

### **2.3 Financial Auxiliary Industries are Neglected, Financial Information Platform Need to be Strengthened**

The shipping industry is an open industry; its supporting financial services must have high risk, so that in mature shipping centers, financial services like accounting, audit, evaluation, investment consulting, brokerage, insurance actuarial, data processing have been developed to the world level, laying a solid foundation for the safety of shipping development. For the current Shanghai, according to the standards of the established international shipping centers in the world, the financial auxiliary industry haven't been fully developed, the functional construction needs to be broken through, and the financial information platform construction also need to be strengthened.

### **3. Problems Existing in the Financial Services in Shanghai Shipping Industry**

Financial services in the construction of Shanghai shipping is around the mode of "concentrate resources, centralized service", that is the government, as the main body, allocates various resources effectively and integrate the existing resources to absorb foreign capital and financial capital, promoting the construction of the shipping industry. Governmental investment companies through the land operation, the state-owned assets invigorated and other kinds of financial means, created the miracle in the development of Shanghai international shipping center, but also caused some problems and contradictions, mainly displays in:

#### **3.1 Excessive Pursuit of Scale**

Shanghai shipping center develops rapidly, it became the world's biggest port in the container in 2010; its annual throughput of container is 30 million TEU. However, excessive pursuit of scale may lead to the following questions: on the one hand, the design of the Shanghai port capacity is 28 million TEU, the actual throughput of 30 million teu is the limits of its tolerance; on the other hand, the regional container resources can't be unlimited growth. The marginal contribution of the port scale to the development of Shanghai will decrease. At the same time, this may lead to the problem of excess port throughput capacity.

#### **3.2 Lack of Optimum Resources Allocation Function of the Financial Industry**

The infrastructure construction of shipping industry not only has massive funding needs, but also possesses the security of "government backing". In the case of the current excess liquidity, many financial institutions are unable to find good projects, almost all of them rush into shipping investment expansion. The excessive concentration of loans may weaken the ability of financial institutions to guard against the risk, leading to the lack of financial resource allocation optimization. The financial mechanism under the backward situation can still promote the extensive economic growth, but also may cause the low level repeated construction; once the economic growth have structural bottlenecks, its serious drawbacks will show evidently.

#### **3.3 Leading to Vicious Competition**

The construction investment of the Yangtze river delta ports to a large extent is the government behavior, its disadvantages have been more and more recognized. It is easy to cause the blind comparison, forming performance project and image project, resulting unreasonable resource allocation and resource waste in shipping industry. At present, there are various competitions to a certain extent among Yangtze River delta ports. If the interests of the state can't be reflected in the future development strategy and mode, the Shanghai shipping center will have no place to live in.

### **4. The Opportunities Brought by FTA Financial Reform to the Shipping Industry**

Shanghai FTA financial reform involves the RMB capital account openness and interest rate, exchange rate, opening of financial services, offshore financial. This paper mainly analyses the interest rate, marine insurance and ship leasing.

#### **4.1 Interest Rate Liberalization**

The impact of interest rates on the shipping market is mainly reflected in the impact on investment. Both shipping infrastructure, vessel investment, and other investment of shipping enterprises, quite a number of funds mainly come from banks, interest rate will affect the cost of investment and profit.

Only when the shipping investment yields is higher than the interest rate, shipping companies borrow money from banks. At present, our country still is a country dominated by interest rate control, including lending and deposit rates, the vast majority of the interest rate is determined by the central bank, the marketization degree of interest rate is not high. Opening interest rate control, on the one hand, can gradually reduce the loan price, and the yield spreads of banks will narrow further. It is beneficial to break the banks' over-reliance on the operation mode of interest margin, broaden the non-interest income, and accelerate the formation of a variety of complementary profit pattern. Banking business model will be developed from homogeneity to differentiated competition, stimulating the effective loan demand. On the other hand, the price game between departments of supply and demand is helpful to guide the capital flow to the efficient department in the entity economy, increase the marginal productivity of capital, and enhance the social financing efficiency.

Because the shipping industry is a capital-intensive industry, lower lending rate can reduce the cost of investment and financing of shipping enterprises. And because of the stronger bargaining power of the large shipping enterprises, under the condition of interest rate marketization, to maintain the optimal level of profitability, financial institutions may allocate more funds to small and medium-sized shipping companies and their service industries to maintain the stable growth of loan proceeds. It will be beneficial to improve the credit availability of the middle and small shipping enterprises, alleviate the financing difficulties, and eventually promote the healthy development of the shipping market.

#### **4.2 Shipping Insurance Reform**

The shipping industry is a high-risk industry, cargoes and ships are vulnerable to various kinds of invasion and threat in river or sea, which may lead to damage to the goods and ships, so the shipping insurance service is needed very much. Shipping insurance is provided mainly to transfer risks, share the loss and compensate the loss. As a loss compensation mechanism, it has an important status in the international shipping industry. At present, the domestic insurance companies mainly focus on cargo insurance and marine insurance, the two shipping insurance businesses grow rapidly. But other insurances, like maritime security and maritime liability insurance, which are necessary for the construction of shipping center, are lack of experience. Compared with London, Singapore and other international shipping centers, there is a large gap between them and Shanghai, Shanghai still has lots more to do in the aspect of the shipping insurance.

Under the background of Shanghai FTA, the shipping insurance, a service platform connecting the shipping industry and financial sector together, will faced with unprecedented opportunities for development in Shanghai. The enormous size of the shipping industry provides a rare opportunity for the development of the shipping insurance. The new trend of the shipping industry integrated along the supply chain has opened up a new business space for the shipping insurance. At present, the world shipping center is shifting to Asia and China, capital, technology, information and other international shipping resources will also be further agglomerated to Asia. It will inject new vitality into the the development of the shipping insurance for Asia, especially for China. In order to catch the wave of development opportunities and take advantage of Shanghai FTA's preferential policy, specialized R & D institutions should be set up to research new technology, new development and new trends in the international shipping and financial sectors. And the government should approve or attract more insurance companies to take advantage of national policies to try new insurances within the free trade area. This move can also stimulate competition in the shipping insurance industry in the FTA. These healthy competitions can not only promote the development of the shipping insurance business, but also lead to the insurance management system changing from professional management to integrated management. At the same time, the related institutions should increase their support in the aspects of the product approval, personnel training, and legal environment construction to promote the industrial upgrading of the shipping insurance.

In addition, appropriately expanding the duty-free scope of shipping insurance business is very necessary. Shipping insurance business can choose the insured location freely, so implementing preferential tax policies for the shipping insurance is not only beneficial to shipping insurance companies gathered in Shanghai, but also helps to push the shipping companies choose insurance in Shanghai. The current duty-free insurances prescribed by the tax authority of Shanghai include import and export cargo insurance, ocean marine insurance and container insurance. Compared with the international shipping centers, the free range is still relatively narrow, the government should fatherly expand the scope of tax preferences, enhance the preferential policy flexibility to promote the international and domestic shipping insurance businesses to gather in Shanghai, and furtherly promote the rapid development of Shanghai shipping insurance.

### **4.3 Shipping Financing Lease**

Shipping financing lease refers to the lessor leases the ship to the lessee for a long time in accordance with the lease agreement, and the ship is operated under the lessee's control. Shipping financing lease as a kind of economic behavior, within the rental period, the lessee must pay rent to the lessor. In recent years, due to the sharp fluctuation of the global economic cycle, the shipping market is volatility too, so most ship lending institutions adopt strict lending criteria to deal with this phenomenon, some banks are tightening the ship loans, some banks completely abolish ship loans. Financing lease has become an effective way to solve this problem in foreign countries. But in China, the lease financing started too late. Shipping financing lease as a new financing way, will face many fetters to meet the financing needs of shipping enterprises, especially small and medium-sized companies, it still can't fully play its great support for the development of economy.

Shipping financing lease can bring incalculable development opportunities for market and enterprises, of which the most important is to broaden the financing channels, especially for some middle and small shipping enterprises. Because of the small scale of operation and low level of credibility, it is difficult for them to get loans from the government and banks. And unlike big shipping companies, it is also difficult to raise money through the issuance of shares or debt. So the financial leasing plays a key role in their survival and development, and can reduce the repayment pressures of shipping companies. Compared with the repayment way of bank loan, the rental payment of financing lease is more flexible, it doesn't need repayment with regularly quantitative fixed rate, and the repayment can be adjusted according to the business situation. This characteristic is conducive to allocate the cash flow of shipping enterprises reasonably, and to a certain extent reduce some pressure on the enterprise funds.

Now the Shanghai FTA is vigorously developing this business, and continuously increase the propaganda of shipping financing lease, trying to change the management concepts of shipping enterprise. The market should continue to instill the knowledge of financing lease to shipping enterprises, promote new achievements of leasing projects, encourage enterprises to create profits through the use of the leased property, and improve the utilization efficiency of limited funds to open up new financial markets and expand customer base. In addition to vigorous propaganda, the government also should actively promote the construction of shipping financing leasing professional institutions, strengthen exchanges and cooperation with ship's professional institutions, such as the classification society and ship brokers. Establishing and perfecting the ship financing project evaluation system is also very important. Of course, all of these must be based on rigorous fair law.

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