

Maersk's contribution to China through FDI

An excerpt from the book *Developing China: The Remarkable Impact of Foreign Direct Investment* by Michael J. Enright



China's economic reforms have created the world's most dynamic economy. A major part of China's economic development has involved foreign companies. This document contains an excerpt from a larger project initiated by the Hinrich Foundation and undertaken by Enright, Scott and Associates on the impact of foreign investment and foreign enterprises as a whole on China's economy. The results of the larger project were published in a book by Michael J. Enright, *Developing China: The Remarkable Impact of Foreign Direct Investment* (Routledge 2017). Using the tools of economic impact analysis, the author concludes that foreign direct investment (FDI) has contributed 33% to China's GDP and 27% to its employment in recent years. The book offers a balanced and rigorous view of the full impact of FDI – using China as an example to illuminate the mutually beneficial partnership between investing companies and host economies – and more importantly, serves as an effective toolkit for policymakers and corporations to approach FDI globally. It is available in English and Chinese. Visit www.hinrichfoundation.com/trade-research/fdi-in-china for more information about the book.

This case study includes the following key findings:

- Through its investments in ports and its shipping operations, Maersk has been a leader in connecting China to the rest of the world and in facilitating China's emergence as the world's leading trading nation.
- The total cumulative impact of Maersk's direct investment (including the direct, indirect, and induced impacts) is estimated at USD 21.5 billion in output, USD 6.7 billion in value added and over 991,000 in employment. The impact of its procurement is estimated at USD 25.8 billion in output, USD 7.9 billion in value added and 1.125 million in employment.
- Beyond the numbers, Maersk has also contributed to China by assisting Chinese suppliers, improving efficiency in ports and logistics, reducing costs, and improving environmental practices.

The Hinrich Foundation (<http://www.hinrichfoundation.com>) is a non-profit organization dedicated to promoting sustainable global trade. Its international trade research program periodically issues white papers and case studies on international trade, investment and economic issues.

our focus

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About the author

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Introduction

Maersk's interaction with China has been multifaceted. It has been a major customer for China's shipyards, in fact it helped some Chinese shipyards to develop world-class capabilities. Through its investments in ports and its shipping operations, Maersk has been a leader in connecting China to the rest of the world, and in facilitating China's emergence as the world's leading trading nation. It also has been a leader in introducing efficient port practices to China, reducing costs and improving environmental practices in the process. Maersk's logistics arm has helped reduce the costs of moving goods within China and between China and overseas markets. The company has also participated through a variety of CSR activities in support of China.

Maersk, the shipping and logistics conglomerate, is represented in more than 130 countries. In 2014 Maersk generated USD 47.6 billion in revenue and employment of 89,200. Maersk businesses include Maersk Line (shipping), APM Terminals (container terminals and port operations), Maersk Oil, Maersk Drilling and Services, DAMCO (logistics), and other shipping and services businesses.

The first Maersk ship to call on a Chinese port arrived in Shanghai in 1924. By 2014, Maersk had approximately 26,000 employees in China and registered USD 11 billion in China-related revenues. The Group estimates that its direct investment and procurement of ships and other items in China exceeded USD 15 billion from 1996 to 2014 (Maersk, 2014c). Procurement in China was USD 2.24 billion in 2013 alone and USD 2.6 billion in 2014 (Maersk, 2015a). As of 2014, its shipping arm, Maersk China Limited, had branches in 28 Chinese cities and its logistics arm had branches in 17 cities. Maersk has been a significant player in port operations in China, with its activities in 2015 in Qingdao, Dalian, Guangzhou, Shanghai, and Tianjin, as well as Hong Kong.

The impact of Maersk on China, however, has gone well beyond its employment and investment amounts. It has been an earlier investor in Chinese ports, a major customer providing substantial technology transfer to Chinese shipyards, a force for improving logistics in China, and a major enabler of China's development into a leading trading nation.

Connecting China to the world

Maersk Line made its first call on a Chinese port in 1924 and opened its first office in the Chinese Mainland in 1984. From 2000 to 2012, the company increased its China port calls by 310 percent and its container movements by 270 percent. In 2012, Maersk loaded and discharged 13.3 percent of all containerized goods in China, was responsible for 16.2 percent of all calls to Chinese ports, and transported 14.5 percent of all containerized goods between China and its main trading partners (Maersk, 2014b, p.21).

Maersk has had a significant impact in its ability to connect China to the rest of the world. According to a report commissioned by Maersk, better container ship connectivity has contributed significantly to China's growth in trade. Better connectivity lowers trade costs, which in turn increase trade, and improve economic growth. According to the report:

The direct impact of maritime transport costs accrues from lower trade costs and better access to markets. The results show that a 10% improvement in maritime container transport has been associated with a 3% decrease in Chinese trade costs, a 6% increase in Chinese manufactured imports and a 9% increase in Chinese manufactured exports.

Since 2004, this means that improvements in liner shipping connectivity have been associated with a 30% increase in Chinese manufactured imports and a 40% increase in exports. This constitutes approximately a fourth of accumulated year-on-year growth over the period. Converted to trade value, this year-on-year growth has resulted in additional imports and exports worth USD 686 billion corresponding to 35% of total trade growth since 2004....

Given its market share, the results show that a 10% improvement in Maersk Line's services and capacity alone has been associated with a 0.8% increase in Chinese imports and a 1.1% increase in Chinese exports. (Maersk, 2014b, p.5)

From 2004 to 2012, Maersk increased its port calls in China by 107 percent and its container movements by 115 percent. From these figures and the results presented in the cited report, we have estimated that the impact of the increase in Maersk China-related capacity from 2004 to 2012 resulted in a total increase of China's exports by between USD 120 billion and USD 135 billion per year.¹ In addition, if we take the Maersk share of China's seaborne exports in 2012 as 14.5 percent, and the share of China's export value carried by sea as 69.5 percent (China Customs, 2012), then Maersk carried approximately USD 206 billion in China's exports in 2012.² Clearly, Maersk's shipping operations have been instrumental in helping Chinese companies and facilities increase their exports. While Maersk was the largest foreign shipping company servicing China's trade, it was not the only one. According to a State Council report in 2014, Chinese shipping companies carried only around 25 percent of the country's seaborne trade, leaving 75 percent in the hands of foreign companies (Nicholson, 2014).

In addition, Maersk Group companies have helped Chinese companies globalize their production systems and thereby expand their international reach. Maersk's Damco logistics company, for example, has supported the internationalization of numerous Chinese companies. Damco has helped pioneer the use of rail links from China to Europe for many Chinese companies, saving time and cost in the process, while offering a full portfolio of land, sea, and air linkages (Shao, 2014). Damco has provided logistics solutions to Shandong Kerui Holding Group that has allowed the oilfield products and services company to serve clients in 40 countries (Damco, 2014). Damco has also provided auto maker Geely and home appliance maker Haier with the logistics solutions necessary to export parts and knocked-down kits to assembly plants elsewhere, allowing the Chinese companies to expand their manufacturing footprints and international reach (Yang, 2015; Maersk, 2014c). Damco has also supported Chinese companies undertaking hydroelectric projects, oil and gas exploration and production, infrastructure construction, and telecommunications projects (Guan, 2015) by providing the global logistics capabilities that Chinese companies are not yet able to provide, thus greatly facilitating the internationalization of Chinese companies in these areas.

Working with Chinese suppliers

Maersk has worked extensively with Chinese shipyards, placing orders as early as 1996, at a time when China accounted for around four percent of global ship deliveries. By 2014, China accounted for roughly 40 percent of global ship output. Between 1996 and 2014, Maersk ordered more than 117 ships of various kinds from Chinese shipyards with a cumulative value in excess of USD 3.5 billion. Its total procurement and direct investment in China reached USD 15 billion (Maersk, 2014b, p.5). In total, by 2015, Maersk had ordered 118 ships from China (Maersk, 2015a).

Maersk worked extensively with Chinese shipyards, especially the Guangzhou Shipyard, bringing engineers to China for months or even years to transfer expertise and knowledge related to producing world-class ships. Maersk had a particularly strong role in the development of product and chemical tankers, accounting for nearly half of the orders of Chinese shipyards (by weight) from 1998 to 2001. Maersk worked with Chinese shipyards to develop product and chemical tankers that could be operated by only 14 people, compared to the previous 30 to 40 people. In the process, Maersk helped establish Chinese shipyards as leaders in their field. Chinese shipyards used the experience developed while working with Maersk to build capabilities to allow them to sell to customers world-wide. Maersk orders went from nearly half the orders of Chinese shipyards in product and chemical tankers in 1998 to 2001 to under three percent between 2008 and 2013 (Maersk, 2014b, p.5). By that time, Maersk represented only a small portion of China's ship deliveries. Maersk's container operations have also influenced suppliers. Maersk has been the largest customer for ZPMC, the crane manufacturer, and has worked with ZPMC to improve designs and capabilities too, but not to the same extent as with the shipyards.

Maersk has an extensive supplier compliance program to help improve the social and environmental performance of its supply chain. Its procurement program incorporates international anti-corruption, social, and environmental standards into Maersk's own procurement process as well as the procurement processes of its suppliers. In 2014, Maersk audited suppliers in China, Cameroon, Korea, Singapore, and Turkey, and found health and safety, working hours and compensation, and environmental performance as areas for improvement. Maersk's Responsible Procurement Team also travelled to the Ivory Coast, Myanmar, Angola, Cameroon, and China to hold supplier development workshops that emphasized Maersk procurement standards in an effort to raise the social and environmental performance of the suppliers (Maersk, 2014d). Damco and other Maersk Group companies have also brought their Responsible Procurement practices to China and have worked with suppliers to improve standards.

Improving efficiency in ports and logistics in China

Maersk has been working to improve port and logistics efficiency in China for decades. It was one of the initial investors in Yantian Port (in Shenzhen) in partnership with Hong Kong-based Hutchison Whampoa in 1994 (this interest was sold off in 2010). Maersk was also an investor in Phase 4 of the Waigaoqiao Container Port and in Phase 2 of the Yangshan Port, both in Shanghai. By 2014, it had investments in ports in Dalian, Guangzhou, Tianjin, Xiamen, Qingdao, and Shanghai, a set that included four of the ten most efficient ports in the world (in terms of container

movements per hour) in Qingdao, Dalian, Shanghai, and Tianjin (JOC Group, 2013). Maersk had sold out of a fifth member of the top ten (Yantian), in 2010.

Maersk has worked extensively with Chinese ports to improve operational efficiency. The company has arranged and facilitated study trips and fact-finding visits for representatives from Chinese ports, terminals, and government agencies to leading facilities around the world. Maersk has also worked with terminal operators to reduce the process time for vessel calls in Chinese ports, using techniques that the terminal operators then use with other customers. Maersk's Terminal Partnering Project is a cooperative project between Maersk Line terminal operators to reduce port stays to improve efficiency and reduce emissions. This project identified potential port stay reductions of 27 percent to 40 percent in Chinese ports, and had realized 12 to 18 percent of the gains by 2014. Should a 30 percent reduction be achieved, this could reduce total port hours for Maersk Line ships in these ports by 11,436 hours per year (Maersk, 2014b, p.41). Should the terminals use a similar planning process for the vessels of other lines, the benefits could be a factor of 10 or 11 greater. Economists have estimated that a 10 percent increase in efficiency in container ports can increase trade by on the order of 3.2 percent, indicating substantial benefits from reducing port berthing time.

China has long faced challenges in its logistics sector. Logistics costs have been estimated at on the order of 18 percent of GDP in China in 2012 compared to 9 percent in North America and Europe. Logistics costs have been estimated at 30 to 40 percent of production costs in China (Maersk, 2014a). Economists commissioned by Maersk estimated that a 6 percent improvement in logistics in China from 2007 to 2012 resulted in a 19 percent decrease in trade costs, which in turn led to a 27 percent increase in China's manufactured exports and a gain of USD 213 billion in trade value (exports plus imports) (Maersk, 2014b, p.43-4).

Maersk's Damco logistics arm has been working to improve the efficiency of the supply chains of its customers in China using a combination of process flow optimization, network optimization, and inventory optimization. Process flow optimization uses consolidation and packaging to streamline flows. Network optimization uses the best transport and warehousing solutions to improve efficiency. Logistics cost reductions of 10 to 20 percent have been achieved in a number of projects through these means. If we take Damco's estimated handling share of China's exports to the Americas and to Europe, estimates of export margins, estimates of logistics costs for export from China, and an estimated savings of 15 percent of the logistics costs, we estimate that Damco could well have saved Chinese exporters over USD 1.3 billion in logistics costs in 2014.³

Improving environmental performance in China

Environmental sustainability has become a key imperative for the Chinese Government and for foreign companies operating in China as well. From 2007 to 2014, Maersk Line reduced its CO₂ output by 34 percent per container and planned to reach 40 percent by 2020. Maersk was also the first shipping line to adopt the 'Fair Winds Charter', a voluntary arrangement to adopt low sulphur fuels that had resulted in an 80 percent reduction in Maersk's sulphur emissions. Since Maersk is the leading shipping line for the international shipping of goods from China and China is Maersk's largest market, the impact of these reductions has been felt most in China.

Maersk Line's Terminal Partnering Project also has an environmental benefit. An hour of berthing at a Chinese port results in fuel consumption and pollution emission. Should a 30 percent reduction be achieved for Maersk Line calls at Xiamen, Yantian, Shanghai, and Hong Kong, Maersk projects that this could save over 10,000 tonnes of fuel and 552 tonnes of SO₂ emissions per year across these four ports just for the port calls of Maersk ships. Should the terminals use a similar planning process for other vessels, as they have every incentive to do, the total reduction could be over 110,000 tonnes of fuel and 6,450 tonnes of SO₂ per year across these four ports (Maersk, 2014b, p.41).

Maersk has also provided technical advice and has accepted below market prices for obsolete ships in China to ensure that they are disposed of in an environmentally sound way (Galley, 2014, p.206). Maersk even set up an internal group to manage ship disposal and has undertaken disposals for other ship owners. Maersk set the standard for working with Chinese yards to ensure that ship disposal minimized the impact on local workers and the local environment. China has gone on to set up some of the most advanced shipbreaking facilities in the world. In fact, in a February 2016 statement, Maersk indicated that only a limited number of yards in China and Turkey could recycle ships responsibly (MarEx, 2016). While committed to using designated shipyards in China that could recycle ships responsibly, Maersk was criticized in 2016 for disposing of some ships in other countries with lower standards. In return, Maersk indicated that it was committed to helping yards in other countries raise standards (Zawadzki and Bartunek, 2016).

Maersk's Damco logistics arm has been working to cut CO₂ emissions through the supply chain within China and has carried out projects that show that on the order of 11 percent of CO₂ can be taken out of many supply chains and up to 27 percent in some cases. It has introduced a five step process for mapping existing supply chains, calculating carbon emissions, reporting carbon hotspots, evaluating the potential to reduce cost and emissions, and implementing solutions (Maersk, 2014b, p.43-4). Damco has also performed audits of its own activities for energy efficiency and reduced emissions.

Developing human resources in China

Maersk has been committed to building its local staff in China. As of 2015, the vast majority of Maersk's 26,000 employees in China, including most management staff, were Chinese. Maersk has also invested heavily in training in China, not just for operational positions, and has brought its naval, sales, and world-leading⁴ CARE PRO customer service training systems to China, as well as state-of-the-art safety training, in each case helping to raise the standards of the transport and logistics sectors in China. Damco also reported extensive training activities, for example, 800 employees in China had been trained on its advanced Kewill global forwarding platform by the first quarter of 2014. Damco has also brought its International Graduate, IMPACT, and Global Talent training programs to China to enhance workforce capabilities (Damco, 2013, p.19, 27).

Maersk has also invested in developing local management capabilities. This has involved formal training as well as ongoing mentoring and the ability to switch jobs within the company on occasion (Maersk, 2015b). One initiative created a program to train roughly 400 middle level managers a year for Maersk's China operations. This program included classroom instruction, hands-on training, and the involvement of the participants' supervisors, and was

tailored to the particular challenges of developing leadership capabilities in China (Neal, 2007). Another initiative sought to develop director-level leaders and then put them through a four-year program to build management capabilities. The program followed up with promotions for high achievers during the program. At the end of four years, the program participant group had registered zero turnover (Huang, 2013). The various programs have helped Maersk bring local employees into important management roles. As of November 2015, for example the new head of Maersk's North China operations was someone who started as a graduate trainee in 1993 and had gradually worked his way up the organization (IS Maritime 360, 2015). Similarly, the head of Maersk's East and Central China operations named in May 2015 had started with the company as a sales representative in 1994 (Lakshmi, 2015).

Maersk Group companies have taken steps to improve worker retention in China as well. Damco instituted a pioneering program of flexible hours and resource sharing, including assembling a pool of nannies, to help mothers stay in the workforce. The program resulted in a sharp increase in women returning to work after having a child, thus increasing family incomes and reducing the costs associated with turnover. Introduced first in Shenzhen, the 'Baby Care Project' has since been spread to other offices in China (Maersk, 2013).

The human resource situation for Maersk in China, however, has remained a challenge as it has for many large companies. Strikes and disturbances at Maersk's Dongguan container facility in 2008 led to a temporary shutdown, meetings with worker representatives, NGO complaints, an independent third-party audit of working conditions, and the engagement of an employee rights consultancy. Accusations of illegal firings, nepotism among mid-level staff, and poor working conditions precipitated several changes in employment, promotion, and safety policies (Maersk, 2009, p.8, 68). For the company as a whole, lay-offs in China during the economic downturn in 2008 and 2009 hurt Maersk's reputation as an employer, which in turn caused the company to review its human resource strategy for China and to introduce changes in compensation structures, benefits, and employee communications to better attract and retain critical personnel (Knowledge@Wharton, 2010).

Economic impact of procurement and investment

We can get a rough estimate of the economic impact on China of Maersk's direct investment and procurement using multipliers derived from China's Input-Output tables, and assumptions about the distribution of expenditures. If we assume that roughly half of the USD 15 billion in 'direct investment and procurement' of Maersk in China was in procurement and half in direct investment, and if we further assume that one-third of the direct investment was spent on land and construction, one-third on supporting services, and one-third on equipment (with half of the equipment imported); and if we assume that the bulk of the procurement was for ships and marine equipment and inputs of one type or another, we can come up with an estimate of the impact of this spending on China's economy.

When we make the assumptions indicated, we estimate that the total cumulative impact of the direct investment (including the direct, indirect, and induced impacts) was on the order of USD 21.5 billion in output, USD 6.7 billion in value added, and over 991,000 in full time equivalents in job-years (1 job for one year, or an average of nearly 50,000 jobs each year over the period). The impact of the procurement is estimated at USD 25.8 billion in output, 7.9 billion

in value added, and 1.125 million in full-time equivalents in job-years (or an average of over 56,000 jobs each year over the period).⁵

Corporate social responsibility in China

Since its establishment in mainland China in 1994, Maersk China has been actively contributing to and participating in local communities where it operates. Maersk and its subsidiaries reportedly engage in over 100 local CSR activities each year. These include activities focused on rural education, community development, and the environment (Maersk, 2014c). Maersk and its subsidiaries have funded construction for more than 20 Hope Schools, supplied poor children in Sichuan with winter clothing, contributed to the responses to natural disasters (earthquakes and floods for example) with financial contributions and blood drives, and provided other charitable contributions around the country (Damco, 2013). Maersk in fact won a special award from the Sichuan Government for its response to the May 2008 earthquake in that province, in particular its use of containers to replace a destroyed school (Shipping Online CN, 2009).

Maersk has also set up education programs for the shipping and logistics sectors around China. For many years, it has also hosted senior Chinese business leaders participating in the Chinese Executive Leadership Program in Copenhagen and London. The Program is organized by the National Development and Reform Commission for top government and state-owned enterprise leaders to study at the Judge Cambridge Business School at Cambridge. Maersk has added programs in Copenhagen or London focusing on the 'Nordic model' of economic development and on the creation and management of successful conglomerates (private communication).

Maersk has also participated in several advisory bodies in China, including the International Advisory Councils in Guangdong Province and in Chongqing. Maersk is an active member of the EU and Danish Chambers of Commerce in China, and has participated in numerous Chamber of Commerce and industry forums designed to help China improve its overall economy as well as its shipping sector. The company also has regular dialogues with Chinese Customs and has encouraged standardization, simplification, and automation of Customs processes, using its experience in Europe and the United States as models.

Making an overall contribution to China

Maersk's overall contribution to China has been recognized many times. The company took awards in the 'Best 10 Comprehensive Service Carrier', 'Best 3 Container Lines in Asia-Europe Trade', and 'Best 3 Container Lines in the Asia-South America Trade' categories at the tenth China Freight Industry Awards ceremony in June 2013 (World Maritime News, 2013). Maersk Line was also named 'Shipping Line of the Year' at the Supply Chain Asia Logistics Awards 2011 held in Shanghai (World Maritime News, 2011). Damco had won several contracts to support the international logistical needs of internationalizing Chinese companies, thus contributing to China's 'Go Global' goal. APM Terminals has also won numerous awards, including five at the Chinese Ports Association Awards in 2009, including 'Best Contributor to the Development of China's Terminal Industry' (APM Terminals, 2009). Maersk has also received praise from a range of Chinese officials. In March 2015, Shanghai Party Secretary Han Zheng thanked the

Maersk Group for the contribution that it has made to Shanghai's goal of becoming an international shipping centre (Shanghai Daily, 2015).

The overall contribution that Maersk has made to China, however, is largely behind the scenes, at least to most people. In providing cost effective connectivity, Maersk has facilitated China's emergence as the world's leading trading nation. As an early customer and technology partner, it has contributed to China's emergence as the world's leading shipbuilding nation. As a world-leading shipping company, it has worked extensively to improve port operations in China, as well as streamline Customs activities. As a provider of logistics services, it has helped reduce one of the major inefficiencies in China's economy. Thus once again, the company's contribution to China has gone well beyond its own investments, employment, and purchases.

Conclusion

Corporate case studies provide a range of insights into the roles played by foreign companies in China. The Maersk story is a somewhat different one. While Maersk's involvement in China has many of the attributes of the involvements of other foreign companies, Maersk stands out in terms of its impact on improving connectivity within China through its logistics arm and between China and the rest of the world through its shipping and logistics activities. Companies that produce and sell in China, like P&G and Samsung, tend to be better known than the companies that provide the vital connections that have allowed China to become a global economic and trade power. Without the experience and international networks of multinational companies like Maersk, making the right connections and leveraging China's advantages into international markets would be far more difficult. The Maersk case shows how valuable it has been for China to connect to world markets and how extensive the resulting impact of the foreign companies that facilitate this process can be.

Notes

- ¹ China's exports were USD 593 billion in 2004 and USD 2,049 billion in 2012 according to World Trade Organization statistics.
- ² Enright, Scott & Associates estimates.
- ³ Using market share and logistics costs estimates found in Maersk (2014b); WTO trade statistics; and Enright, Scott & Associates estimates of export margins from China.
- ⁴ As assessed by Corporate Executive Board (CEB), a company that focuses on talent management and works with 90 percent of the Fortune 500.
- ⁵ Enright, Scott & Associates estimates.

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About the research



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