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Ship Management SIG

China's owned fleet's powerful expansion

The expansion of China's investment in shipping and land-based assets has been considerable. Richard Scott, managing director of Bulk Shipping Analysis, and visiting lecturer in the MSc maritime operations and management programme at City St George's, University of London gives his analysis of this powerful expansion.

A doubling of cargo capacity in the past nine years has been achieved by the China-owned fleet of merchant ships – bulk carriers, tankers, container ships, gas carriers and other ship types. New buildings on order now comprise almost a fifth of the fleet, a doubling in a few years, implying further robust expansion. What is driving this upwards trend?

Among ship owning countries China's fleet is the largest, based on one tonnage measurement, and has been growing at well over twice the rate of the world fleet as a whole in the past decade. Expanding capacity enables rising shares of seaborne imports to and exports from China to be carried in nationally-owned vessels.

The directly or indirectly expressed government policy aim of reducing dependence on foreign shipowners and strengthening the security of the country's international trade movements is being fulfilled. Increased participation of China owned ships in open market 'cross-trades', where China is neither importer nor exporter, is also assisted by the enlarging fleet.

- China-owned merchant ships now comprise approaching one-fifth of the world fleet
- During the past decade capacity in the China-owned fleet more than doubled
- Bulk carriers remain by far the largest component, currently contributing just over half the entire merchant ship fleet

Fleet growth reflects changes in, and the relationship among four main elements determining inflows and outflows. Annual growth in capacity results from volumes of newbuilding deliveries and second-hand vessel purchases, both adding capacity, while second-hand sales and scrapping (recycling) reduce capacity. Year-to-year variations in the China-owned merchant ship fleet's increases have occurred. But over the past ten years or more, greater stability of growth rates has evolved

- Year-to-year variations in the China-owned merchant ship fleet's increases have occurred. But over the past ten years or more, greater stability of growth rates has evolved
- Annual growth averaged 8.4 percent in the decade ending 2024, more than twice the world fleet's average 3.6 percent annual expansion
- Ship type averages in the five years period as a whole were fairly uniform. Bulk carriers grew by an average 7.9 percent, tankers by 6.7 percent, container ships by 6.7 percent and other types by 8.2 percent

The impact of newbuilding ship capacity entering the China-owned fleet is often modified by several other changes. Last year, despite reduced albeit extensive newbuilding deliveries, much higher secondhand ship purchases were combined with lower secondhand sales, while scrapping remained minimal, resulting in an acceleration in fleet expansion.

The future trend: how will it unfold?

Assessments of the future evolution of the China-owned merchant ship fleet, especially over the longer-term, involve a large conjectural element, based on assumptions which may or may not prove accurate.

Several influences are difficult to evaluate. Estimates of secondhand ship purchases and sales are mostly speculative guesses about unknown strategy and intentions that may change. One potentially more reliable expectation is that it seems realistic to expect greatly increased scrapping after the unusually low volumes seen in recent years.

An influence that can be assessed more rigorously, albeit still with uncertain aspects, is the likely inflow of newbuilding deliveries into the fleet over the next few years. Information about orders placed by shipowners, and shipbuilding yard orderbook data, is available. These details are a partial yet substantial indication of prospects for the future fleet.

The delivery schedule for newbuilding vessels - based on confirmed orders placed at shipbuilding yards - provides a guide to fleet capacity additions, although it is not always a completely reliable indicator of future volumes or timing of introduction into the operating fleet. This schedule is often a useful approximation, however. A newbuilding's delivery timing sometimes changes, due to construction delays or postponement. Cancellations, or orders changed to another ship type, typically are fairly minor features.

China-owned fleet's employment

Clear signs of the China-owned merchant ship fleet's close links with market segments, cargo types and trade routes are evident. The vast scale of crude oil, gas and dry bulk imports into China has stimulated expansion of the country's tanker, gas carrier and bulk carrier fleets. Exports and imports of manufactured and semi-finished goods have provided an incentive for the growth of China's container ship fleet.

Many new ships joining the China-owned fleet seem likely to be wholly or mostly employed in trades where China is at one end of the route or routes involved, as importer or exporter. Often only partial information is available about commitments, contracts and intentions. However, information about ships' geographical employment patterns and actual movements confirms how and where specific ship types and sizes are employed.

An aspect that is likely to have an impact on how the fleet evolves is envisaged future changes in trade volumes and patterns. For import trades especially, after China's commodity imports saw a strong upwards trend over an extended period of years, there are now arguably signs of growth slowing or ceasing in some parts.

Numerous China-owned ships will continue to be mostly employed in the massive China coastal trades that are not open to employment of foreign-flag tonnage. How the trend of China-owned ships' involvement in the international cross-trades, where China is not a destination or origin, will evolve during future years is difficult to assess.

Fleet employment and future requirements for capacity depend partly on how Chinese leasing companies' activities progress. These leasing companies, several of which are active on a large scale, provide finance for foreign ship operating clients in numerous countries while retaining vessel ownership through the lease agreements and therefore are the official owners of such tonnage. Their services reflect demand for, and the supply of finance in the international shipping market, competing with other financial houses.

Fleet expectations overview

As outlined in this article, changes in the China-owned fleet's capacity depend on the scale of variations in several elements. Augmenting newbuilding deliveries, in 2025 and further ahead the fleet will reflect secondhand ship purchases, and the offsetting impact of secondhand sales and recycling sales. Estimates of these components are almost entirely guesses, because many unpredictable and changing influences affect decisions by owners about whether and how to acquire or dispose of tonnage.

Despite these conundrums, the extensive orderbook for China-owned newbuilding vessels, almost a fifth of the country's existing capacity, points to further substantial fleet enlargement over the years ahead. China's greater proportionate share of world seaborne trade (especially as an importer, with 25 percent of the world imports total), than of the global merchant ship fleet implies an incentive to expand nationally-owned cargo-carrying capacity. This feature may be perceived as potentially supporting fleet growth.

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