

# Current Problems in Sino-Korean Shipping Joint Ventures from the Chinese Partners' Viewpoint

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## 중국 파트너의 관점에서 본 한중해운합작기업의 당면한 문제점에 관한 연구

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### 국문요약

1989년부터 한중간에 해운합작기업이 설립되기 시작하여 1996년 현재 7개의 해운합작기업이 설립되어 운영중에 있다. 본 연구는 한중간 해운합작기업의 설립동기와 중국의 파트너 관점으로부터 그 기업의 설립과 경영과정에서 발생한 제반 문제점을 파악하는데 있다. 본 연구에서 발견된 주된 문제점은 첫째, 문화적 차이, 둘째, 한국의 중국인에 대한 부적절한 출입국정책, 셋째, 한국 화물운송주선업체의 낮은 품질 서비스, 넷째, 한국 하주의 운임체불, 다섯째, 한국에서의 높은 항만운송비용, 여섯째, 한중해상로의 덤핑운임, 그리고 합작해운기업과 중국 모회사간의 화물예약분쟁이다. 이러한 문제점은 중국 파트너와의 면접과 현장조사를 통하여 중국적 관점으로부터 도출된 것이기 때문에 그 결과의 내용은 과대평가 되었거나 편향된 것일 수도 있다. 그러나 본 논문에서 다루어진 문제점은 향후 한중해운합작기업의 발전을 위하여 해결되어야 할 사항이며, 잠재적인 한중해운분야의 투자가들에게 도움이 될 것이다.

## 1. Introduction

Access to internationally competitive ocean shipping services is a prerequisite for economic development and integration at the national and regional levels. Since the early 1980s, the availability of sea transportation between Korea and China has allowed markets to grow and economies of scale to be achieved through division of labour and specialization. In particular, since 1989 the

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Chinese shipping companies and their Korean partners have developed joint ventures (JVs) in shipping, and operated vessels on the routes between the main ports between the two countries. The JVs have offered many opportunities and benefits [1] to both Korea and China because the two countries have many complementary needs.

To date, joint ventures with China have been studied extensively by researchers in business administration, however, not only has the focus of the past research [2, 3, 6, 8, 10, 13] been rather limited to the manufactory industries, but also it has been done from non-Chinese viewpoint.

The purposes of this paper are, firstly, to describe the background and motives for JVs in shipping between Korea and China, and secondly, to draw the problems experienced by Chinese parties in the Korean shipping circle. They must be clearly understood and analyzed in order to develop and prosper the JVs as mutually beneficial forms of co-operation on a long-term basis. This paper takes a research type of fact-finding. Therefore, it used an interpretative research methodology to examine Chinese experiences in Korea. Interviews and a questionnaire were also carried out to acquire reliable and systematic data and information.

## 2. Background of Shipping Co-operation

Historically, Korea and China had maintained political and cultural relations as close as the teeth and lips. Despite the geographical and cultural proximity of China and South Korea, ideological differences had shattered South Korea and China's relationship since the late 1940s. The two countries remained hostile toward each other until late 1970s when China adopted open door policy.

On January 25, 1980, Chinese Foreign Minister Huang Hua in a speech entitled 'The Situation and Policies in Foreign Affairs in the 1980s and Future Tasks' for the first time officially stated China's policy toward South Korea as '*guan men bu shang suo*' (the door is closed, but not locked) [4]. Since then, although it was limited, the relationship between Seoul and Beijing in the non-political field began to develop.

South Korea's intention to improve ties with China was aimed at both keeping peace in the Korean Peninsula and promoting mutual economic benefits. South Korea saw that it could break into the Chinese market by importing mineral resources and raw materials as well as exporting consumer and capital goods. China also believed that it could obtain greater economic benefits from South Korea by: importation of industry products and equipment; introduction of advanced technological know-how; exportation

of raw material to earn hard currency; and inducement of foreign investment.

The emergence and development of economic co-operation have an important impact on sea transportation requirements between China and Korea[6, 8, 14]. Moreover, because road and rail transportation systems are not available between the two countries due to the land transport blockade in North Korea, more than 98% of Korean foreign trade goods must be carried by sea to and from China. Therefore, container shipping lines and ferry services have been established between major ports of the two countries[6].

In such circumstances, Chinese state-owned shipping companies established their paper shipping companies in Hong Kong in order to transport seaborne trade volume between Korea and China via Hong Kong, Japan or Singapore which had increased in a significant rate. However, they could not meet sharply increasing seaborne trade volume between Korea and China. Thus, a special office, which belongs to the State Council of China and deals with the South Korean trading affairs, was set up in Beijing in 1988. The first step taken by the office was to develop shipping JVs between the two countries. As a result, the China National Foreign Trade Transportation Corporation (SINOTRANS), the national forwarder in China, was instructed to carry out this task.

The SINOKOR, which is the first joint venture in shipping between the Dongnama Shipping Company in Korea and the SINOTRANS in China, was established in April 1989. As can be seen in Table 1, since the establishment of the SINOKOR, the other 6 shipping JVs have been established. The types of vessel the shipping companies deployed on the routes are container and car ferry.

Table 1. Sino-Korean Shipping Joint Ventures

	SINOKOR	WEIDONG	CO-HEUNG	JINCHON	C & K FERRY LINES*	DA-IN FERRY LINE	COSHAN
Date Established	14 Apr.,1989	14 Aug.,1991	8 Mar.,1991	9 Dec.,1991	12 Oct.,1995	23 Feb.,1995	1 Jan.,1996
H. Q. Location	Hong Kong	Weihai	Hong Kong	Seoul	Yantai	Seoul	Seoul
Contract Parties	China: SINOTRANS  Korea: Dongnama Shipping Co.	China: Weihai shipping Co. & other 5 companies  Korea: Dongnama Shipping Co., Yukong Shipping Co.	China: COSCO  Korea: Heung-A Shipping Co.	China: Tianjin Shipping Co.  Korea: Dae-A Shipping Co.	China: Qingdao Ocean Shipping Co.,& other 2 companies  Korea: Zinsung Co.	China: Dalian Ocean Shipping Co. & other 5 companies  Korea: Cho Yang Shipping and other 15 companies	China: COSCO  Korea: Eagle Shipping Co.
Equity Ratio (China: Korea)	50:50	50:50	50:50	50:50	75:25	50:50	60:40
Vessels Employed	4 Containers	2 Car-ferries	4 Containers	1 Car-ferry	1 Car-ferry	1 Car-ferry	NIL
Operating Routes	Shanghai, Tianjin, Qingdao, Dalian-Pusan	Weihai, Qingdao- Inchon	Shanghai, Tianjin, Qingdao, Dalian- Pusan	Tianjin- Inchon	Yantai-Pusan, Yantai-Kunsan	Dalian- Inchon	NIL

Note: \* C&K Ferry Lines took over the Yellow Sea Ferry Co., Ltd in October 1995, which had been established between Korea and China in August 1994. The equity ratio of China and Korea was 95:5.

## 2.1 Motives for JVs

The Chinese government has influenced establishment of shipping JVs on the basis of the following two principles: equality and mutual benefits; and no conflict with the Law of People's Republic of China on Joint Venture Using Chinese and Foreign Investment and other relevant laws and regulations of the People's Republic of China. The interviews and a questionnaire illustrate that major motives of the Chinese parties involved in JVs are:

- to promote and develop political relationship between the two countries, which is a non-economic factor. The SINOKOR is a good example here. As mentioned above, the SINOKOR was set up under the Chinese government 3 years earlier before the

establishment of the diplomatic ties in 1992. It undoubtedly made an important contribution to bridge the political and economic relations between the two countries:

- to promote Chinese foreign trade with Korea and, consequently, to access to the Korean shipping market. Korea ranked the sixth trading partner to China last year. The significant increase in the trade volume is the main factor attracting Chinese shipping companies to enter the Korean shipping market;
- to import advanced know-how in shipping management from Korean shipowners; and
- to induce more investment from Korea.

## 2.2 Types of JVs

As shown in Table 1, the Sino-Korean shipping JVs can be divided into three categories depending on the size of the Chinese participants, their main objectives and the degree of Chinese government involvement in the arrangements.

Firstly, there are JVs in which large state-owned companies such as the China Ocean Shipping Company (COSCO) and the SINOTRANS participated under the general guidance of Chinese and Korean governments. The SINOKOR and the CO-HEUNG are good examples here. The Chinese partners with relatively rich of funds and skilled manpower made it easier to establish the JVs compared to other Chinese partners. And the Chinese government also played an active role in promoting the formalization the JVs.

The second type of Sino-Korean JVs calls for the participation of the ferry lines, i.e. WEIDONG, JINCHON, DA-IN, and C&K. The Chinese parties in this type are middle-sized shipping companies, which consist of local shipping companies, the branches of the China Ocean Shipping Agency (PENAVICO), and trade companies. Due to lack of funds available at their companies, these JVs have chartered car-ferries flying flags of convenience, and they are planning to purchase vessels as their business has developed in recent years. Local governments have played a positive role in the establishment and expansion of the JVs in order to develop their cities and to induce more foreign investment from Korea.[8]

The third is the shipping agency. The COSHAN established in January 1996 is the first joint venture in the area of shipping agency between Korea and China. The Korean partner, Eagle Shipping Corporation, was the general shipping agency for the COSCO before formalizing of the JV, and President of this company visited China several times and kept good relationship with some managers at the COSCO. The COSCO needed a reliable agency in Korea, and the Eagle wanted to have a stable

customer for acquisition of long-term benefits. This resulted in the establishment of the joint venture. The Chinese government did not involve in its establishment.

### 3. Problems with the Korean Shipping Circle

Korean modern banking system, financial and accounting management system, stability of the political and legal environment as well as skillful manpower are highly appraised by the Chinese parties. Nevertheless, the surveys in this study indicated that major problems Chinese partners have experienced in the Korean shipping environment are as follows.

#### 3.1 A little cultural difference but .....

Korean people are deeply influenced by Confucianism, they are taught to be loyal to their country, to respect their teachers, and to do filial duty to their parents. The moral concepts and convention are very similar between Korea and China due to their historical origins, and the cultural differences are not so big as those between eastern and western countries. However, the interviews in this study say that most Chinese partners complained Korean deep-rooted ideology of anti-foreignism, which often causes the misunderstanding and mistrust. The principle of Chinese attitude to their partners is to be honest with them, and Chinese believe that a trusting relationship requires a generous investment of time and patience.

#### 3.2 Strict control on the issue of visa for Chinese people

The establishment of full diplomatic relationship between China and Korea in August 1992 has resulted in increased trade, tourism and cultural exchange. A statistics says that 235,452 Korean tourists visited China and 63,302 Chinese entered Korea in 1994. There exists a big difference between the two numbers. The Chinese partners of Sino-Korean shipping JVs, in particular WEIDONG, JINCHON, and DA-IN maintain that it results from unequal immigration policy adopted by the Korean government, which establishes strict controls on the issue of visa for Chinese visitors, and, consequently, it is detrimental to increase of annual JVs revenue.



### 3.3 Low quality services of Korean forwarding agents

Interviews and a questionnaire in this study showed that many Chinese partners complain lack of credit of Korean forwarding agents. For example, an anonymous JV was informed by their agent that a charterer would transport cars from Pusan to Ningbo port (a port of South China). Two managers of the company went to contact the Ningbo Port Authority and sign the dispatch, storage and agency agreements. Empty containers for the cargo were also arranged. When everything was ready, the agent informed them that the cargo was not booked. As a result, not only did it incur expenses, but also the credit and reputation of the Chinese partner was damaged.

### 3.4 Deferring payment of freight

Another striking problem Chinese partners have suffered from in Korea results from deferring payment of freight of cargo owners. For example, the COSHAN complained that too much time and expenses are spent to collect freight. In particular, when the Korean consignee refused to take delivery of goods, neither their freight nor the other related charges, such as storage fee and port charges paid by the COSHAN could be collected. In case of low value goods, although the goods could be sold by auction, the expenses for cargo storage, port charges, and freight could never fully covered by the JV.

### 3.5 High physical distribution costs in Port of Pusan

Despite that Port of Pusan is the largest container port in South Korea, concentration of container traffic on the port has brought about the lack of container handling facilities and a severe port congestion, and has caused the severe saturation of Pusan's urban roads and the Seoul-Pusan highway. Moreover, owing to the shortage of container terminal yards, most of containers loaded and discharged in the Port of Pusan have to be passed through 35 off-dock container yards (ODCYs), which are scattered in the Pusan metropolitan area. In particular, in the case of conventional berths (Pier 1-4), given their lack of container storage area, almost all the export and import containers have to move to and from the ODCYs. As a result, a large number of container trailers are needed between the port and the ODCYs. The use of the ODCYs added to the severe road congestion on the urban roads in Pusan. The above road and port congestion, and the inefficient inland transport system result in incurring additional physical distribution costs. As a consequence, it becomes a stumbling block against Chinese to the shipper as well as the consignee.

### 3.6 Dumping freight on the sea trading routes between Korea and China

After the establishment of diplomatic ties in 1992 and the maritime agreement signed between Korea and China a year later, shipping companies of both countries have been able to operate their ships on the routes between the two countries and tried to increase their market share. Thus, their JVs aside, the COSCO and the SINOTRANS have deployed their own fleet on the routes. As a consequence, supply of shipping services exceeded their demand for the trading routes. It results in dumping freight.

### 3.7 Conflicts of cargo booking for the JVs and their parent companies

The SINOTRANS and the PENAVICO are the main forwarders for the COSCO. Cargoes they have booked should be allocated between their parent companies and JVs. Both that which company has priority to transport the cargoes and that how they should be allocated become difficult problems. In other words, their JVs have become a big burden to their Chinese parent companies.

## 4. Conclusion

The growing economic co-operation and integration in the Far East Asia has already been reflected in the rapid development of regional ocean transport networks and shipping joint ventures between Korea and China.

The problems Chinese partners of the JVs have experienced in the Korean shipping circle were outlined in this paper from the Chinese viewpoint. They could be exaggerated or biased owing to not only their subjective views but also small size of JVs sample. However, the findings in the paper suggest an inescapable conclusion: the Korean shipping circle has not well developed to attract foreign shipping investors in terms of institutional and business environments. Therefore, the problems drawn in the paper are required to be reviewed from the Korean viewpoint and to be solved in order to develop the Korean shipping industry. For example, low quality services of Korean forwarding agents and tough immigration policy on Chinese may be solved by the rapid implementation of the deregulation and liberalization policy for the Korean shipping industry.



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