



THE GOVERNMENT SUPPORTS OF PEOPLE'S REPUBLIC OF CHINA FOR IMPROVING LOGISTICS SECTOR

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Abstract:

The People's Republic of China is a country that has developed rapidly along with economic growth, targeting almost every country in the world as an international market. Parallel to the economic growth, the logistics industry also showed a rapid development and achieved an important place in the world rankings. In this study, the policies applied on the logistics sector of the People's Republic of China were investigated. The rapid growth of China's logistics industry has been investigated in terms of the economic effects, policies applied and the growth rate of these policies. In this context, the general situation of the logistics activities in the People's Republic of China and the policy that the government implements are included. According to the obtained data, in the People's Republic of China, the logistics industry is rapidly developing and it is determined that the government provides serious support with the policies applied to the logistics sector.

Keywords:

People's Republic of China, Logistics Sector, Government Supports

1. Introduction

The logistics sector makes a very critical contribution to the world economy with the effect of globalization, and it is expressed to be the third sector after the industrial and service sectors in terms of its growth phase. In the People's Republic of China, the logistics sector has progressed in parallel with the economic growth. The logistics sector has improved the total social logistics by 38.4% with its growth environment, transportation facilities, service aspect, and the technological development, and this rate increases every year.

The concept of modern logistics showed its most significant development in the People's Republic of China in the 20th century. Significant support was given to the logistics sector with the implementation of the centralized planned economic system, transportation, storage, packaging, distribution, and application methods in the sense of the creation of the New China. In the People's Republic of China, the logistics sector has been remarkably developing lately. The reason for this is expressed to be the great lack of infrastructure. It is observed that the growth acceleration has increased with the contributions and improvements by the central government and the local governments to the sector. When examined in terms of the regions, it is observed that the sector develops much faster in the coastal and inland areas. It is seen that in rural areas, the sector has not developed as much as the other regions most likely due to transportation problems and lack of infrastructure, and the logistics costs are considerably high.

The state support behind the development of the logistics sector has an important effect. In this context, the Central Government issued a circular in March 2001 with the State Economic and Trade Commission, Ministry of Railroads, Ministry of Communications, Information and Industry, and other units to speed up the modern logistics development of China. Following this circular, it explained its opinions on the establishment of a free container and transportation and a pilot foreign investment institution. Furthermore, serious regulatory reforms were made on subjects such as the modern logistics industry, the revitalization of the logistics sector, and the work plan, logistics and logistics industry policy of China, with which Chinese logistics enterprises can promote the country.

The outsourcing rate of the logistics operations of industrial and commercial enterprises in the People's Republic of China is lower when compared to the developed countries; however, this rate gradually increases. When considered in general, conventional activities such as transportation and distribution are accepted as the most popular outsourcing areas. This situation indicates that Chinese enterprises have become more active about outsourcing to load more advanced logistics functions to the LPS (Logistics Planning System).

2. Support Provided To The Logistics Sector In The People's Republic of China

2.1. The Logistics Sector in the People's Republic of China

It is observed that the logistics sector of the People's Republic of China has made significant progress in recent years. It was previously considered that the main reason for the slow growth of development acceleration is deficiencies in infrastructure. Improvement investments carried out to overcome the infrastructure deficiencies in recent years have allowed the sector to leap. It is observed that the transportation infrastructure of the People's Republic of China is quite inadequate when compared to the land and population in spite of its current mega size. In general, it is considered that the transportation infrastructure of the People's Republic of China only responds to the 60% of the population. On the other hand railroads and ports cannot respond to this demand. In airline transportation, which has an important place in strategic logistics, there is a lack of advanced technology, materials and educated human resources. The differences in climatic and geographical conditions in the People's Republic of China which has a large surface area brings some difficulties with it. Due to the large population of flood plains in the eastern part of the country, the rapid increases in land prices and charges in coastal areas cause the production centers of the companies to move to these regions (Logistics in China 2010). The fact that the companies move to the interior regions has improved the waterway transportation and highway transportation and provided opportunity for the investments. It is observed that the most important deficiencies in the infrastructure are resulted from communication and transportation. Although the highway networks of some regions in the People's Republic of China are in accordance with the western standards, there are serious infrastructure problems in the rural areas outside the center. Thus, this situation causes high logistic costs. The reason for the fact that logistics network is widespread in the rural areas is that major investments are required in the interior areas despite government efforts. Moreover, it is stated by the logistics authorities that since the national economy is in the course of development, the logistics sector will make rapid progress and achieve global standards.

2.2. Government's Attitude towards the Logistics Sector in the People's Republic of China

In the People's Republic of China, the concept of modern logistics appeared in the 20th century. In the People's Republic of China in the post-reform period, macroeconomic environment indicated fundamental changes and the changes in the planned economic system destroyed. It was observed that together with rapid economic development, goods distribution of some companies increased. Many infrastructure facilities such as railways, airlines, junctions, warehouses as well as storage, transportation, packaging operations caused a rapid development in the logistics sector.

Together with rapid development of the People's Republic of China economy, economic power significantly increased in the 1990s. Increase in the supply of goods, supply and demand relationship improved the logistics sector. The Ministry of Foreign Affairs made significant attempts to develop the logistics sector. In March, 2001, State Economic and Trade Commission, The Ministry of Communication, Information and Industry, Ministry of Railways and other sub-ministries issued a circular letter to accelerate the logistics development of the People's Republic of China. This letter is the first written document issued by the government to accelerate the modern logistics development of the People's Republic of China.

The State Council carried out the applications of free container and transportation (April, 2002), opinions related to the Pilot foreign investments, the issues required to be considered by the Chinese Logistics Companies (June, 2002) for the country presentation, Modern Logistics Industry (August, 2004), Revitalization and Study Plan of the Logistics Sector (March, 2009), Chinese logistics and logistics industry policies with the related ministries for the development of the logistics sector. The logistics sector began to be considered as a potential sector to contribute to the economic growth. For this purpose, the procedures to be carried out to develop the sector and contribute to the national economy were rapidly planned and put into practice.

The Council of State and the other institutions provided support with the policies they applied for the rapid economic development of the People's Republic of China. National Logistics Operation Briefing collectively published by the National Development and Reform Commission, National Statistics Bureau, China Federation of Logistics in 2010 indicated that the condition of China at the end of the policies applied was generally good.

Significant increase in logistics demand, developed operation productivity, rapid growth of the logistics play an important supportive role to provide and protect the proper and rapid development of the national economy.

Total industrial logistics of the People's Republic of China was reported as 113,1 trillion Yuan in 2010. The growth rate of 14,6% observed in the previous year indicated an increase at the rate of 0.5%. Total social logistics is 90,2%, import cargo logistics factor is 9,4 trillion Yuan. These numbers indicates that the country has indicated a rapid growth (Deloitte Research, 2015).

The logistics sector of the People's Republic of China indicated a strong growth in 2011, total logistics value reached to 158.400 million Yuan and increased by 12,3%. The manufacturing sector continues to be the key for the Chinese economy. China logistics market developed by 1,59 trillion US dollar to create the 18,6% in the world in 2013 and became the greatest logistics market of the world two years in a row.

Although the outsourcing rate of the logistics operations of the Chinese industry and trade companies is lower than the similar companies in the developed countries, this rate increases.

The outsourcing rate increased to 63,3% in 2010. This situation indicates that gradually increasing Chinese companies have observed the benefits of outsourcing and begun to use external sources.

Logistics enterprises can receive more taxes due to many government policies. Some local authorities are providing preferential tariff rates to promote export. Companies need strong local knowledge and relations with developing incentives and regulatory changes (www.logisticsmgmt.com).

It is thought to make a contribution to the growth of the logistics sector by giving priority to logistic parks, railroads and harbour constructions. Thus, domestic and foreign investments will increase, and the growth potential in logistics services will also increase across the world. According to the Twelfth Five-Year Plan, road networks will be expanded by the end of 2015 and improvement will be provided by 90%. Then, it is aimed to establish a serious supply chain by investing more than 1.5 million Yuan in the aviation sector (www.logisticsmgmt.com).

2.3. The Types of Logistics Companies in the People's Republic of China

State Logistics Companies: Railway transportation belongs to the large-scale manufacturing companies such as Chinese Railways Express, Chinese Transportation Group, Chinese Air, China Cargo, as well as the logistics companies, Sinopec and PetroChina including the branches from different public enterprises such as Sinotrans. Offshore transportation and local mail services are among the state logistics. Foreign Logistics Companies: There are UPS, FedEx, DHL, Kerry Logistics and Global Logistics, Hong Kong, Macau and Taiwan based companies including the companies invested by the foreign capital. Personal Logistics Companies: There is a large number of such companies and have spread all over China. They perform all kinds of logistics operations such as highway transportation, home express delivery and storage. Some of them such as SF Express, YT Express, STO and YUNDA created a national network and acquired a substantial amount of market share (Deloitte Research, 2015).

2.4. Invest Propensities of the Logistics Sector in the People's Republic of China

Logistics, which is one of the first companies to enter the outside world, has become an important field to attract foreign investments. Logistics has become a focal point in foreign investments in China. The statistics indicate that the logistics sector is the focal point in the foreign investments (basically acquisitions) in China. It was observed that there was a decrease in both economic disasters in the years of 2008 and 2012. It was observed that the acquisition of the Chinese logistics companies by the foreign companies in 2014 reached 539 million US dollar in total in the transportation and logistics infrastructure fields. Foreign companies adopted one of the following three strategic approaches to enter the logistics market in China (Deloitte Research, 2015) :

1. Acquiring real estate areas for company and network in Tire 1 cities.
2. Trying to proactively penetrate Tire 2 and Tire 3 cities by focusing on control rate.
3. Slowly entering the market with ways such as partnership, purchasing and privatization.

The improvement of the operational productivity in all logistics industry is based on the standardization and the development of technology. In recent years, new technologies represented by huge data, cloud computing and

internet provided big opportunities to transform and enhance the logistics industry. Increase in the labor costs significantly increases the attention to adopt software and technologies by the companies. In the international market there are new methods of capacity release, regional and cross border expansion, logistics growth.

3. Conclusion

Since the 1990s, the rapid development of the national economy of the People's Republic of China has led to significant economic power, wealthy resources of goods, transport systems of the buyer to the market, supply and demand formation, a strong development of the logistics industry. The logistics sector in the People's Republic of China only responds to the 60% of the transportation infrastructure due to general deficiencies. While responding to the demands for ports and railways, airline transport has not completely developed due to lack of advanced technology, educated personal and equipment. The People's Republic of China has succeeded to attract the attention of many international companies getting out of its label as a market producing cheap goods and its population of 1.330.141.295 has gained a seat in the world trade with 8789 trillion dollar GDP.

The People's Republic of China considers the logistics sector important and supports its development. In accordance with the obligations of the WTO, the distribution channels opening to the foreigners provide the integration of the sector with global logistics network. The People's Republic of China focused on transportation in the interior regions and logistics sector in the coastal regions. The reason for this situation is cheap port costs. Cheap costs in the People's Republic of China cause densities in the ports.

Chinese State Council issued new eight enactments (State Regulation) to stabilize and strengthen the development discipline. The People's Republic of China makes great effort to regulate the freight market. These enactments issued have been effective to cope with the increasing labor costs and expensive energy resources.

The additional capacity in the break bulk market, oil tankers and dry cargo transportation caused decrease in the freight rates. This problem is considered to be resulted from the imbalances between supply and demand. On the other hand, debt crises in many developed countries suppress the global demand.

The People's Republic of China made significant investments to the railway transportation. Although military traffic, resources and passenger railways are priorities for goods transport, it is expected that there will be longer-term increases in railway loading.

The People's Republic of China makes a major part of the local transportation with highway transportation. The expansion of the highway transportation network is prioritized among the local governments. Due to violent competition in the logistics market, road-based service levels are improving.

While the capacity of airline transportation increases by 6% per year, this increase is low when compared to the general logistics market in the People's Republic of China. The airline transportation in the People's Republic of China is mostly used to transport high value or significantly compact goods.

The transportation conducted with short-distance waterway has an important place in the economic growth in the mid western of China. The reason for this is that the conventional manufacture proceed to the west due to gradually increasing costs in the eastern cities of China and that the decision-makers of supply chain try to open new channels in the interior channels.

The expansion of an extensive transportation network is important for the development of the logistics sector. The improvement of the transportation infrastructure is a priority for the Chinese Government. In 2010, the People's Republic of China made decisions contributing to the consistent increases both in passenger and freight traffic.

The logistics market of the People's Republic of China is quite fragmented. The presence of many small-scale local LPS provides local know-how with affordable prices and services with tender method. Some small-scale LPS cannot adapt to the logistics applications. In this case, there are decreases in the demands for raw material transportation and merchandise exports in the People's Republic of China.

Increase in the fuel costs is an important problem for the logistics sector. Heavy goods vehicles are frequently encountered in the People's Republic of China, road accidents are frequently experienced and there is no guarantee for on-time delivery due to traffic congestion. In this case, small businesses use flatbed truck or vehicles covered with simple canvas. In this regard, product damage and security become an important problem.

Low level of outsourcing in the logistics procedures in the People's Republic of China may prevent the sector from developing.

Deficient regulations in the People's Republic of China, deficiencies in the standardization about the logistics regulations and logistics operation prevents the sector from developing in a healthy way.

The retail market in the People's Republic of China is at the third place in the world after Japan and USA. The franchising application of the foreign investors willing to take place in the People's Republic of China market sparkling with its superiority have gained importance. However, while there is not a specific franchising law, foreign investors apply a set of franchising methods and create versatile distribution channel.

The People's Republic of China government continues to provide the required infrastructure to make the logistics sector stronger. Especially, the studies to improve the logistics development strategy with Pearl River Delta region and Chinese continent continue.

It seems that the required infrastructure studies will continue to improve themselves as the logistics, economy and a new economic growth potential with the increase in investments.

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