The Effect of Globalisation in Shipbuilding Industry

- Historical Observations and View on the Way Forward -

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Japanese Saying (from Edo era):
駕籠に乗る人、担ぐ人、そのまた草鞋を作る人
“Those who ride on the carriage”
“Those who transport the carriage”
“Those who make the shoes for those who transport the carriage”

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Quotation from “Maritime Economics”

“There always seems to be a spectrum of yards with different cost levels and market cycles forming the backdrop to a running battle between low-cost new entrants and the established builders.”

Martin Stopford, Maritime Economics 3e
Quotation from “Maritime Economics” – cont.

“As supply expands and prices fall, the high-cost yards start to make losses and eventually some of them will close or diversify – the market has replaced high-cost yards with low-cost yards, which is exactly what the market process is all about. Through this ratchet process capacity expands and the competitive yards gradually drive out the inefficient ones, making better use of economic resources.”

Martin Stopford, Maritime Economics 3e

Keywords to the analysis of present situation

- Survival of the fittest
  - Globalisation
- Technology changes
  - Technology competition
  - Principles of competition was inevitably dollars-and-cents
- Shipyards to build ships that would reduce costs by pursuing the economics of scale
  - Mathematics of the new shipping entrants
- Volume of order and productivity
  - Technological changes and innovations to improve the shipping business systems in the hand of the shipping companies only in suitable market??
- Situation is now changing
  - Regulatory framework: safety, environmental protection as well as ergonomics
Globalisation in shipbuilding

1. Huge amount of investment to run a shipyard → it will stay where it is.
2. The shipyard competitiveness is linked to local or national situation (costs incl. exchange rate) and to productivity improvement in quality etc.
3. Quality covers not only workmanship but design as well as management.
4. Past capacity expansion always took place during the peak time; there will always be a concern on over-capacity. One of the most reliable tools to enhance productivity through economies of scale may bite us back through the market process.
5. Quality is the last battlefield left in the competition and shipyards lacking expertise to administer other elements such as financing will always remain passive.
6. The other option is to go abroad. With technology transfer, let the shipyards abroad build ships while there are challenges.

Experience of Japan

Case A
- Joint Venture with state - subject to state policy
- Supportive role tarnished as the shipyard abroad gained experience
- Exploring different areas of business
- Co-work and supplementary work arrangements evolved

Case B
- Joint Venture with state - state creditability, state restrictions
- Full command in running - quality improvement, systems worked
- Change of Player - policy confrontation
Concerns related to globalisation through joint venture

1. Internal policy of the incoming investors must have clear long term views to support.
2. Investments decision require assurance that all stakeholders will perform as expected.
3. Shipbuilding is very labour-intensive and is subject to various rules and regulations – incoming investors may not a have full grasp.
4. Conflicts in sharing objectives among/between parties.
5. Intellectual property rights problem particularly when terminating the venture.
6. Others (language, legal knowledge etc)

Where we are today

1. **Over capacity** cannot easily be overcome just by reducing production.
2. Shipowners are facing increasing competition and need to create new markets as well as reduce their operation costs.
3. Fundamental requirements in rules and regulations; the quality of ships must improve in terms of **safety and environmental protection**.
4. The current regulatory framework being pursued has favoured **new technologies**, of which some are out of the scope of normally employed shipbuilding technology.
5. **Quality management** is important particularly in the current buyer’s market.
6. **Financiers** are becoming more **sensitive to ship's quality** including energy saving qualities.
7. Direction to **non merchant shipbuilding market** such as offshore unit markets, expanding into various categories.
Roles and way forward

1. Shipbuilding industry has always been under pressure for competition.
2. Looking into globalising is one of the options to improve cost and become competitive.
3. The solution to improve competitiveness while building in its own country would be to improve productivity and quality.
4. Improvement of productivity is normally linked with the economies of scale but not favourable in the current circumstances.
5. Quality is currently considered to be the key point of competition outside the commercial elements such as price and financing.
6. Currently we are at the crossroads; where there seems to be a fine balance between the quality and commercial competitiveness.

Key suggestions

1. We must understand that the options to globalise activities by building abroad provide part of the strategy that will back up sustainability – this is not the only option.
2. Quality improvement must continue regardless of the options taken.
3. There are many concerns that need to be challenged in seeking success in overseas expansion; many of them are human elements.
4. To fulfil or come closer to wishes of the shipowners, we must keep on making a serious study, though it is already known that there will be risks on all stakeholders to accomplish such venture.
Thank you.