



Promote the development of private
enterprises by market-based instruments

China International Freight Forwarders
Association

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Contributions of private enterprises

1.1

Private enterprises have played an important role in facilitating trade and logistics in central Asia

- Up to July, 2010, one third of 22,200 enterprises including branches registered in the Ministry of Commerce are private enterprises. ◦
- There are over 500 foreign forwarders enterprises registered in Xinjiang and Inner Mongolia provinces, many of which are private enterprises.
- It's characterized by high efficiency, low cost and flexibility as what logistics service requires and also provides personalized service.
- In accordance with the trade characteristics in central Asia, it plays an important role in facilitating trade and logistics in central Asia

Contributions of private enterprises

- 1.2 It provides huge amounts of private finance for the international trade in central Asia
- ❖ Term of receivable (such as entrusting party, consigner and merchants) usually is 40-50 days
 - ❖ Receivable (such as shipping company and airlines) cycle is shortened to 15-20 days while other modes of transportation such as railway have no receivable cycle.
 - ❖ Foreign forwarders enterprises provide “one-month finance” for enterprises including traders
 - ❖ According to incomplete statistics, private foreign forwarders enterprises provide traders with 22-44 billion dollar “one-month finance”
 - ❖ It also includes various kinds of performance bond, guarantee money and so on.

Difficulties

Market entrance

Financing

Fail to go out

No channels to appeal

Unbalanced profits by preferential policies

- ❖ As a main qualification for market entrance, a certain amount of registered capital is conducive for the government to rule the market.
- ❖ High registered capital restricts some private enterprises to enter the market, which is prone to falsify registered capital.
- ❖ Low registered capital destroys the management rules of the market and makes follow-up management more difficult for the government.
- ❖ Registered capital is not identical to enterprises' capability to bear legal responsibility.

- ❖ Registered capital for International Freight Agency in China
 - Transportation by sea, land and air: 5 million RMB
 - Transportation by air: 3million RMB
 - Transportation by land: 2 million RMB

Employees:

Customs broker five employees with professional qualification

Customs inspection: five employees with professional qualification

Difficulty in financing

Service-oriented freight forwarders enterprises have less capital to finance despite required high amounts of capital turnover, which results in difficulty in financing or high financing cost.

Provide low-end service because of failing to go out

- ❖ Establish cross-regional physical service network to support its service scope.
- ❖ Bear the legal responsibility, risks of participants, capitals and expense and so on.
- ❖ Provide low-end service with small profits due to the lack of international exchange stage, channels, techniques, experiences and enough capitals.

Governments and international organizations including Asian Banks in central Asia pay much attention to the development of private enterprises and give them policy and financial support.

But there are still some problems in implementing policies, such as the gap between foreign trade enterprises and foreign forwarders enterprises in enjoying discount loan and allowance for traveling abroad.

How to solve problems?

How to solve there problems through the joint-effort of governments, international organizations, industry associations and enterprises themselves is what all of us concern.

Government perfects market access system by market-based instruments-1

- ❖ High registered capital restricts some private enterprises to enter the market while low registered capital destroys the management rules of the market to establish and perfect liability insurance system. It's suggested to reduce the registered capitals and establish liability insurance system.
- ❖ With its advantages, liability insurance system is a necessary condition to enter the market in western developed countries or a general entrance requirement to enter a certain trade, so liability insurance system is also needed in central Asia.

Government perfects market access system by market-based instruments-2

1

Reduce enterprises' burden for registered capital

2

Mitigate the business risk

3

Protect the clients' legal rights

4

Standardize the market order

- Governments, international organizations and industry associations pay attention to statistics and formulate guideline documents according to the problem cropping up in their separate area.
- Help private enterprises train their employees on business skills and how to evade and control the enterprise risks.
- Provide free or preferential legal aid.
- Explore or set up the channels to appeal for private enterprises.

- Make private enterprises benefit from the preferential policies
- Put into effect the preferential policies from which the foreign forwarders private enterprises get benefit. E.g foreign forwarders trade should enjoy allowance for overseas traveling to help them go abroad.

Suggestions

Special funds to support the private enterprises

How to make use of special funds for the development of small and medium-sized enterprises

4.1.1 Background

Foreign forwarders enterprises need to pay government and freighters including shipping companies and air lines high amounts of guarantee money or margin account.

- ❖ NVOCC 800,000RMB guarantee money extra 200,000RMB for every branch.
- ❖ System of freight charges guarantee money equals one-month turnover on average .
- ❖ Pay shipping companies and air lines guarantee money or margin account and so on.

It's suggested that Asian Bank could set up “special found” to reduce private enterprises' burden.

4.1.2 Principles

❖ Non-relief Principle

Special fund doesn't equal relief fund. Private enterprises should make full use of its "blood-making" function to maintain and increase the enterprise vitality and then deal with the relation between "blood-making" and "blood transfusion".

❖ Security Principle

Make sure the security of special fund for recycling. This is a new initiative to support the development of private enterprises by market-based instruments. ○

4.1.3 The use of funds

Pay the NVOCC guarantee money, which is paid to Ministry of Transport as the access condition to discharge the fire and economic responsibility because they fail to fulfill their obligations or inappropriate performance.

4.1.4 Operating mode

- ❖ Private enterprises have paid guarantee money – pay back the guarantee money
Private enterprises apply the special fund for the ADB, which is equal to the guarantee money.
- ❖ Private enterprises which apply for NVOCC-- advance money on security
Private enterprises apply the special fund for the ADB and ADB gives a special account upon inspection.
- ❖ Risk prevention for capital security
- ❖ Insurance company designs insurance provisions for ABD special funds and provide security guarantee. ◦

All applied enterprises are policyholders while ADB is insured and the beneficiary. If the enterprises use the guarantee money, insurance company should make compensation for ADB.

4.1 Special funds to support the private enterprises

4.1.5 Fund

- ❖ About 800 million Yuan.
- ❖ There are over 4000 NVOCC in China, one third of which are private enterprises including those to be added in the near future.

4.1.6 Operability

- Special funds can be managed by fund management institutions.
- Liability insurance can replace 800,00 guarantee money of NVOCC in China.
- CIFA and four China largest insurance companies jointly developed the first international Freight Forwarders Liability insurance policy (international logistics liability insurance policy) in China in 2007 and the first Finance Logistics liability insurance policy in 2009, both of which are jointly-underwrote by the four companies.

4.2 How to make use of special funds for the development of small and medium-sized enterprises

- ❖ China has arranged special funds in each financial year to support the development of the medium and small size enterprises. Asian Development Bank may also have the same support.
- ❖ However, this part of the funds seldom involves in property freight logistics industry, if any, maybe only a small part of the corporations profit.
- ❖ When using of the special funds, whether we can replace the previous approach with another one to make more corporations profit?

How to make use of special funds for the development of small and medium-sized enterprises

4.2.1

- ❖ It can be used to subsidize the small and medium-sized enterprises which purchase liability insurance.
- ❖ Ensure the interest of Cargon's owner
- ❖ Risks under control
- ❖ Standardized market
- ❖ Fairness
- ❖ Help standardize the upstream and downstream sectors

It guides enterprises to purchase liability insurance in a way combined with voluntary choice and government compensation, which is also applicable for “credit insurance and receivable service” to ease the financial pressure on funds and transfer business risk to solve the problems in a market-based way.

4.2.2

- ❖ Applicable to promote the unified document in Central Asia.

CFCFA implements the unified document CAREC. CFCFA prints the standard unified document CAREC by using the special funds, and distributes them free of charge to the enterprise.

- ❖ By unifying the CAREC document, it also allows query of the standard document by networking, as well as the query of the issuer, issue date and other information, at the same time, it can verify the authenticity of the document.

4.2.3

- ❖ Operability -- CIFA has been in the promotion of FIATA documents .

One has to buy liability insurance when using the FIATA document.

Register, leave the seal of the issuer, and set the password. ◦

When each document was put into use, the computer will automatically compile a 16-bit code. One can query FIATA document usage information through the national network.

After the customs, the owners or other persons get the documents, they can verify the issuer's stamp, handwriting, issue date and issuing company name on internet.



Thank You !

