

An Analysis of Market Concentration in the Korean Liner Shipping Industry*

Yeong-seok HA ** · Jung-soo SEO***

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Abstract

Korean shipping companies have seriously contemplated on pursuing economies of scale in order to tap the potential that Korea can generate for the seaborne cargo volume and fleet capacity, despite of latent pros and cons associated with the economies of scale. This paper shows the concentration ratio of the top four liner shipping companies in Korea is well below that of the global counterpart. Additionally, the changes of CR_4 between 1992 and 2004 indicate the Korean shipping market has become more competitive and less concentrated. The HH index that has been lowered over the same period also supports the same finding. In contrast, the global liner industry showed its market concentration ratio and the HH index increasing during the corresponding period.

Key Words : Korean Shipping Industry, Economies of Scale, Market Concentration Ratio (CR4), the HH index

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** Professor at Department of International Commerce, Keimyung University, Korea, Email : hysok@kmu.ac.kr

*** Assistant Professor at Department of International Commerce, Keimyung University, Korea, Email : jsseo07@kmu.ac.kr (corresponding author)

I. Introduction

The recently unfold global financial crisis begun in the US and spread all over the world since September 2008 pulled the global economy into a deep recessionary trap. Although there has been heterogeneity in growth rates by the regions the global economy has contracted almost simultaneously. World GDP has shrunk by 1.9% in 2009, the first time since the Great Depression in the 1930s. However, more notable during this period was the collapse of trade due to over-reacting to the great recession of the global economy. In 2009, world trade recorded the sharpest decline in 70 years, creating the ‘great trade collapse’.¹⁾ In fact, world’s exports and imports have contracted in 2009 by 13.7% and 13.1%, respectively which was equivalent to 12.7% of the world output in 2007. The reasons behind the great trade collapse were arguably due to the effects of fragmentation and global outsourcing, *i.e.* offshoring, combined with the composition and the bullwhip effects.²⁾

Ups and downs of maritime industry critically hinge on the development of international trade and thus on world economic growth although there could be differences among regions and the types of cargo handling. Therefore, the great trade collapse has created an unprecedented difficulty for the global shipping industry,³⁾ as well as for Korean shipping industry.⁴⁾ Global maritime industry, especially shipping industry, has been experiencing a high level of competition partly because of much progressed deregulation and liberalization of the industry and also because of the emerging overcapacity of the fleet, conspicuously in the container liner shipping. Shipping companies pursued economies of scale with a view to achieving efficiency and staying afloat, in terms of vessel size and firms’ operation,⁵⁾ as well as through mergers and acquisitions (M&As) as seen in the Japanese case study of NYK & Show Line and OSK & Navix Line.⁶⁾

The Korean shipping industry has already experienced twice the industry rationalization in the 1980s and restructuring during the 1997-1999 period of the Asian financial crisis due to weak competitiveness of Korean shipping companies. The relatively smaller scale of Korean shipping and logistic

1) WTO(2011); UNCTAD 2011a).

2) Orefice and Rocha(2011).

3) UNCTAD(2011b).

4) Ha(2012).

5) UNESCAP(1999); UNCTAD(2011b).

6) Choi and Yoshida(2013).

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