WEST CHINA DEVELOPMENT, NEW RAILWAYS, AND THE CHINA-EUROPE CONNECTION

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In recent years the Chinese government has been making efforts to help the western provinces catch up with the economic development of the coastal region. As part of this program, new long-distance railways have been put in place, resulting in faster connections between China and Europe. This is expected to move production activities inland and offers new opportunities for European businesses.

RESTORING THE EAST-WEST BALANCE

Over the past 20 years, the Chinese government has modernised the infrastructure in the country’s coastal regions to support its export-based economy. This had the desired effect but it also created a disbalance between east and west, with socio-spatial inequalities, mainly between coastal and interior provinces, and between the cities and the countryside.

As part of its ‘go west’ campaign, the five-year plans published in 2012 highlighted the Chinese government’s strategy to develop the interior provinces. The objectives are clear:

- Reduce the wide gap between east and west: The provinces in the south-west (Sichuan, Chongqing, Guizhou, Yunnan, Guangxi) and west (Tibet, Qinghai, Xinjiang, Gansu, Ningxia, Shaanxi) represent 71% of the country’s land mass and house 29% of the population, but only contribute 17% of the economic production.
- Reduce the exodus from the rural western areas to the big cities in the east. Since 1980, between 100 to 150 million people left the western provinces to find work in the eastern coast-side cities.
- Decrease the saturation of the big coastal cities like Shanghai in order to avoid economic overheating.
- Secure China’s position internationally in relation to the surrounding countries. Position the country in a central place in the international cooperation and competition with its neighborhood.
- Attract new companies to set up in this part of the country.

INVESTING IN TRANSPORT

The government’s five-year plans specified that transportation will be a cornerstone for the restructuring of the economy in the western region. And rail was identified specifically as a mode of transport that could offer a strategic link between the eastern and western provinces for encouraging international business cooperation. To this end, three rail links between Europe and China have now been opened:

- A connection between Chongqing and Duisburg (Germany) was the first to be created, and this went into service in 2011.
- The line from Chengdu in the Sichuan Province to Lodz (Poland) was finished in 2013.
- Another freight rail link was established in July 2013, running from Zhengzhou to Hamburg (Germany). The main difference between this line and the first two is that it serves the northern central region of China, while the other two are mainly serving the western and southern regions of China.
The annual investment in railway infrastructure by the Chinese government has increased every year since 2011, reaching almost 809 billion Yuan (approx. USD 123 Billion) in 2014. The Minister of Railways intends to involve a diversity of financing channels by encouraging enterprises, local governments and the private sector to take part.

**GEOSTRATEGIC ASPECTS**

The rail bridges between Europe and China serve three geostrategic objectives:

- They enable Chinese manufacturers to reach the European markets without having to take the sea road via the Suez Canal.
- They create the possibility for China to strengthen its grip on all the ex-USSR satellites, all the way to the Black Sea and Turkey.
- They support the Chinese political ambition to grow the economy of the interior provinces by developing the infrastructure.

The numbers are telling here: the train lines from China to Europe can potentially cover 40% of the continent and serve three quarters of the world population. This geostrategic revolution is already underway and China intends to continue with it.

**BENEFITS FOR SHIPPERS**

The new railway connections offer several interesting advantages for any company transporting goods between China and Europe:

- Freight costs are lower.
- Transit times are shorter than by sea (between 13 and 18 days, depending on the link used).
- It becomes possible to trade new kinds of goods: cargo that would be too expensive to transport by air and for which the sea route transit times are too long.
- The train links will give a boost to the economy along the routes, possibly creating new sourcing areas and destination markets.
- Trucking distances will become less because many warehouses that are far removed from the ports are nearer to the railways.
- These benefits explain why several of Damco’s European customers have already decided to shift their business from the Chinese coast to the western part of the country.

Transports in the other direction, from Europe to China, are expected to increase due to the growing Chinese demands for cars and European food (especially meat and dairy products). Currently, China imports about USD 7 billion worth of perishable food from Europe and the developing rail infrastructure could be a great opportunity for European companies to target the huge Chinese market. Rabobank, an international bank with a focus on agriculture, expects that rail will claim its share of the 10 million tonnes of perishable goods shipped to China by sea each year.
The new rail connection between Chongqing and Europe cuts transit times in half at lower costs. (Source: nigelnixon.com)

The link from Chongqing to Europe (Duisburg, Germany), part of China’s ‘go west’ initiative, serves to illustrate the effects of the new rail connections. With 28.5 million inhabitants, Chongqing has attracted USD 11 billion in direct foreign investment in 2011. Thanks to the development of the new rail infrastructure, the transit time from Chongqing to Duisburg is now 16 days. Previously a manufacturer wanting to ship goods to Europe would first have to move the cargo to a coastal port and then expect a sea voyage of 30 days – an alternative that was not only more time-consuming but also more expensive than the current railway offering.

Since the new line offers access to about 40 countries alongside or close to the track, it also opens up new markets. This is attracting a growing number of manufacturing companies to Chongqing, especially in the automobile, electronics and garment industries.
**About the author**

Lyes Fiouane, Client coordinator for SCM customers, has joined Damco France in April 2014. He has a background as a sales coordinator from the industry and has studied communication and international relationships.

**About Damco**

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