The rise of Chinese railway diplomacy

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In recent months China has signed a flurry of agreements with foreign governments promising closer cooperation in the rail sector. Keith Barrow looks at why railways are now a hot topic at intergovernmental summits.

THE UNPRECENDENTED investment in China's railway network over the last decade has transformed the country's railway supply industry. Chinese construction companies are building high-speed lines to ever-greater technical standards, and building them in record time. A new study by SCI Verkehr suggests CSR and CNR are now the world's third and fourth largest suppliers of rolling stock.

These manufacturers are investing heavily in research and production. This year CSR unveiled China's first domestically-developed high-speed train, the CRH380A, and the company says it completed the development of a 7.2MW six-axle electric locomotive and built a prototype in just six months. CSR claims it now has the capacity to manufacture a staggering 800 electric locomotives per year.

The aim of this escalation in activity has been primarily to satisfy the massive domestic demand for new rail equipment as the Chinese government ploughs trillions of Yuan into developing the network. But it is in foreign markets where the true potential of China's rail industry is about to be unleashed, with the backing of the government and Chinese financial institutions.

Rail investment has been a recurrent theme at recent intergovernmental summits and while it is nothing new, so-called railway diplomacy is an increasingly-prominent feature of Chinese foreign policy. Beijing appears to be offering an infrastructure bonanza to countries that might otherwise struggle to marshal the resources required for major transport projects, and China's financial muscle means it can afford to back projects with a rate of return stretching over decades, even in countries with a difficult credit history.

Argentina is still suffering the effects of defaulting on its debts eight years ago and funding infrastructure investment remains a major challenge in the wake of the global financial crisis. In July China agreed to invest $US 10 billion in Argentine rail projects, despite a continuing trade dispute between the two countries. Chinese rolling stock manufacturers look set to reap the rewards of this agreement, which includes the acquisition of 16 locomotives and 160 coaches for inter-city services, and 279 metro cars for Buenos Aires.

In August Thailand and China agreed to form a joint venture to develop plans for two high-speed lines. The first would run for 580km from Bangkok to Nong Khai and the Thai government says construction could start in the second half of next year with the first trains running in 2015. China is expected to assist with the feasibility study, which will reportedly take around two months to complete. If it comes to fruition, the Thai high-speed line could be a showcase for Chinese high-speed technology at the heart of the fast-developing Asian market.

Last month a three-day state visit to Beijing led by South African President Mr Jacob Zuma yielded yet another bilateral cooperative agreement on rail transport, this time promising collaboration on infrastructure development, financing, safety, technology transfer, and harmonisation of technical standards. Chinese railways minister Mr Liu Zhijin said his country is willing to share its expertise in a number of fields, including high-speed rail.

This coincided with an announcement that a conceptual framework for a Durban - Johannesburg high-speed line will be completed by next March as part of a 20-year national transport plan, which will also consider new lines from Johannesburg to Cape Town and Musina.

Railway diplomacy has even reached Europe. Ukrainian President Viktor Yanukovich returned from a state visit to Beijing last month with a $US 950 million loan to finance a new rail link to Kiev Borispol International Airport.

China is not the only Asian economic power seeking to assert its position in the international rolling stock market. With domestic demand dwindling, Japanese suppliers envisage a much greater role for exports in the future, and they are preparing to compete with Chinese competitors on a global level. This was demonstrated in June when Mitsubishi Heavy Industries and Hitachi signed an agreement to cooperate in developing products for the international urban rail market, a segment where Chinese suppliers are also eager to expand their presence.

The Japanese Ministry of Land, Infrastructure and Transportation said last month the Japanese Bank for International Cooperation would be prepared to offer long-term, low-interest loans to the state government of California if it adopts Shinkansen technology for its high-speed network. Like China, Japan is clearly willing to throw the finance in with technology to seize the opportunities in emerging markets.

SCI Verkehr's study supports the view that a fundamental shift is underway in the railway supply industry, and Asian companies are in the ascendancy. China's astute promotion of its railway industry abroad, its ability to finance infrastructure on attractive terms, and the increasingly-high quality of products on offer means Chinese suppliers are poised to increase their international presence.