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# LOGISTICS

## NEWSLETTER | 27 MAY 2014

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### ECONOMIC HUBS

#### Proposal for new Silk Road launched

Reconstruction of the ancient Silk Road through Central Asia to Europe would create the world's longest project. The 6,000-kilometer-long dream envisioned by Chinese President Xi Jinping would open a new frontier for Chinese development. The Silk Road proposal "has attracted global attention as a framework covering a wide range of issues," said Pan Guang, Vice Chairman of the Chinese Society of Middle East Studies. The initiative involves both overland and maritime routes. The land route would generally follow the Silk Road of 2,000 years ago. It would connect the city of Xian in northwest China with Venice, where Marco Polo began his legendary voyage to the Orient. The 21<sup>st</sup> century incarnation would pass through Kazakhstan, Kyrgyzstan, Iran, Iraq, Turkey, Romania and Germany. "The New Silk Road will enable trade to flow easily east and west just as it did centuries ago," Erlan Idrissov, Kazakhstan's Minister of Foreign Affairs, said in a recent article about improved regional economic integration. Trade made the original Silk Road flourish for 1,600 years, and trade is expected to underpin the development of the New Silk Road. Investment opportunities are expected in infrastructure projects such as energy pipelines, highways and rail links. China's New Silk Road concept also involves sea routes connecting ports in Indonesia, Thailand and India. Some initiatives that help define the New Silk Road concept are already under way. Chengdu started freight rail services to Kazakhstan, Russia, Belarus and Poland last year. The high-speed train, with a capacity of 41 containers, takes 14 days – five days longer than air freight but 25% cheaper.

## INLAND RIVER TRANSPORT

### Three Gorges Dam exceeds cargo target set for 2030

The Three Gorges Dam, the world's largest hydropower project, has reached its shipping capacity and already exceeds the target set for 2030, the Ministry of Transport said. One of the key benefits of the vast infrastructure project was an increase in shipping capacity, but now engineers are struggling with the challenge of how to provide more room for cargo on the Yangtze river. The dam has made the river deeper and slower, allowing for easier navigation – especially upstream – for cargo and passenger vessels. The limiting factor for cargo, however, is the capacity of a five-step lock and a soon-to-be-completed ship lift to transport vessels across the 181-meter high dam. “We estimate the throughput of the five-tier ship lock of the Three Gorges Dam will hit 110 million tons this year, far beyond our expectations,” Li Yang, Deputy Director of the Policy Research Department of the Ministry of Transport, said at a press conference in Beijing. “The shipping capacity of the three Gorges Dam's lock is already full.” Li said the project was designed in the 1980s when experts estimated that less than 100 million tons of shipping would pass through each year before 2030. The tonnage of shipping using the five-tier lock exceeded 100 million for the first time in 2011, more than five times the level before the dam was constructed. It reached a record high of 100.06 million tons last year, representing 40,848 cargo vessels and 2,461 passenger ships, or 300,000 tons per day. In normal conditions, ships need to wait an average of 40 hours to get through the locks. Li said a new ship lift would be completed by July next year. “But the lift's annual throughput capacity of cargo will be just 6 million tons,” he added. The Yangtze river is the leading means to transport cargo in the mountainous Three Gorges area, the China Daily reports.

## PORTS & SEA TRANSPORT

### Increase in port activity reported

Container throughput at major domestic ports has been on the upswing since March, indicating that foreign trade will keep growing in the months ahead and meet the government's targets this year. According to Chineseport.cn, container throughput at the nation's top 10 ports was up more than 7% year-on-year in April, after expanding 6.5% in March. The increase “sent a strong signal that China's foreign trade is still showing a good performance, despite growing worries that the world's second-largest economy is slowing down”, said Xiao Feng, Deputy General Manager of Shenzhen Onetouch Business Service Co, a trade service provider. The increased volumes are “a true picture of China's current trade, which has benefited from a steady recovery in the United States and Europe and surging demand from the Asian market,” Xiao said. Container throughput at Ningbo, Zhejiang province, increased more than 20% year-on-year in April, while Shanghai, the country's largest port by capacity, saw a 6% increase last month, Chineseport.cn said. The container volume figures stood in marked contrast to the trade slowdown in value terms. Total trade contracted 3.1% year-on-year to CNY8.1 trillion in the first four months. In April alone, total trade slumped 1.3% year-on-year, following a 6.5% decline in March, according to the General Administration of Customs. According to Xiao, last year's export figures were probably distorted as some companies inflated their export orders to channel capital into China. The practice has been curtailed by the recent yuan depreciation and tighter controls by the authorities. Exports to Hong Kong plunged 33.1% year-on-year in the first four months, as many false trade declarations filed last year were described as exports to Hong Kong, the China Daily reports.

### China Rongsheng Heavy Industries signs shipbuilding contract

China Rongsheng Heavy Industries Group Holdings, one of China's biggest shipbuilders, signed a USD1 billion contract with a European shipowner to build up to 36 bulk carriers within the next three years, thanks in part to a strong global shipping market. Of the total, 24 are confirmed orders and 12 are optional so that the shipowner can buy them at a fixed price in the future to hedge against unpredictable spikes in ship prices. The buyer can also choose not to buy if shipping rates go down. Among the 24 confirmed orders, 18 were signed by Rongsheng last year at a lower price, but the terms were renegotiated at a higher order price given the robust status of the dry bulk shipping market. Rongsheng refused to disclose the identity of the buyer. In the first quarter, new orders by Chinese shipbuilders have grown 170% from a year earlier, among which 96% were from foreign buyers, according to the China Association of the National Shipbuilding Industry. All the 36 ships to be delivered are dry bulk carriers of 64,000 DWT. According to Clarkson Research, Rongsheng is the world's third-largest shipbuilder and the largest in China in terms of orders on hand at the end of December

2012. The company reported a loss of CNY8.7 billion for last year.

## Approval requirement for marine insurance companies scrapped in Shanghai FTZ

Marine insurance companies and reinsurance firms in Shanghai do not need to apply for administrative approval to set up sub-branches in the city's free trade zone (FTZ), the first time the China Insurance Regulatory Commission (CIRC) has dropped the requirement. Additionally, all types of insurance sub-branches in the zone will be able to appoint new heads without getting the regulator's approval, the CIRC said in a statement. The latest move seeks to boost insurance businesses in the FTZ. The CIRC also said the Shanghai Marine Insurance Association will develop marine insurance policies and registration with the regulator. Pei Guang, Director of the Shanghai Insurance Regulatory Bureau, pointed out that it is the first time an industrial association is allowed to register new policies, the first time marine insurance agents can set up sub-branches, and the first time setting up sub-branches do not need approval. The Association now has 31 members, of which 25 are insurance companies. Tu Guangshao, Vice Mayor of Shanghai, said the measures are part of market liberalization policies.

## RAIL TRANSPORT

### New railway line to boost trade and tourism with Eurasia

The 11,800-kilometer Suzhou-Manzhouli-Europe railway line, which opened last September, is expected to boost China's trade with Eurasia. The train line starts in Suzhou in Jiangsu province, runs to the Chinese border city of Manzhouli and finishes in Warsaw, Poland. The whole trip takes 18 days. Compared to other train lines the new railway cuts traveling time by four days and reduces costs by USD2,100 per container. New lines connecting Manzhouli with Zhengzhou, the capital of Henan province, as well as Guangzhou, the capital of Guangdong province, are expected to start running soon. In the near future, Manzhouli is expected to become a hub for international logistics. In April, the line from Suzhou hosted four trains carrying LCD monitors and laptops. The combined value of the trains was USD9.4 million. From March to June a further 12 trains were due to run. Returning trains mostly carry vehicle parts from German automaker BMW bound for Shenyang and Beijing. The line is expected to benefit China's trade with Poland, Hungary, Austria, Germany, Czechoslovakia, Romania, Ukraine and Russia. Rail freight capacity from the Manzhouli hub could reach 70 million tons a year. Last year, capacity hit 30 million tons. Manzhouli is the country's appointed auto parts and vehicle import port, due to its capacity.

### Gefco's new train route ties Chinese ports to Central, Eastern Europe

Gefco Group, the international arm of the Russian Railways specializing in automotive and industrial goods logistics, is launching a new door-to-door route between China and Europe. The new service allows overland cargo and ocean freight collected at China's major ports to be delivered via Alataw Pass or Manzhouli, in China's Xinjiang Uygur and Inner Mongolia autonomous regions, to such countries as Russia, Ukraine, Belarus, Poland, Germany and Hungary. Christophe Poitrineau, Gefco's Asia President, said that since rail service tends to be more expensive than sea freight, the company is working on solutions for better back-flow transportation, so costs can be lowered. "Now, it is often a one-way operation from China to Europe, and when the train returns, it is often empty. There is work to be done on both sides – the work of unifying one custom system along the Eurasian line," Poitrineau said. Although there are regular block trains from Chongqing, Chengdu, Zhengzhou and Yiwu to both Europe and Central Asia, most haven't been able to operate bi-directional services yet. As trade accelerates, Poitrineau said more products from Europe will be transported to China using rail routes in the coming years. Gefco is considering to invest in warehouse facilities in the Shanghai Pilot Free Trade Zone (FTZ). Automotive logistics is Gefco's key market in China. Gefco has established two joint ventures that serve Dongfeng Peugeot-Citroen Automobile (DPCA) and Changan PSA Automobiles. It also opened a new branch in Chengdu in 2013. Headquartered in Courbevoie, France, Gefco's global revenue hit €4 billion in 2013, and revenue from its China operation totaled €100 million the same year. Gefco will set up new branches in Ningbo and Dalian in 2014 to enhance its ocean transport capabilities. It also sees possibilities in establishing branches in Kunming and Urumqi, the China Daily reports.

## Cities building rail links to Europe

As China builds a new Silk Road economic belt, more than a half-dozen cities are competing for goods and investment from multinationals to boost rail operations to Europe. With shorter transport times and lower freight costs, international rail lines linking western and central China to Europe have helped improve regional connectivity and trade. Since 2010, major Chinese cities, including Chengdu, Chongqing, Xian, Zhengzhou and Wuhan have all launched weekly or monthly modern block train services to different European destinations, as part of China's efforts to turn its inland resource and labor-rich cities into international trade hubs. Chengdu expects a two-way express rail service with Lodz, Poland, to begin in the second half of 2014, Chen Zhongwei, Director of the Chengdu Logistics Office, said. The route opened in April 2013. Chinese cargos to Europe mostly consist of industrial yarn, automobile parts, new materials, IT goods, electronic and garment products, as well as daily necessities. Chinese trains usually return empty, driving up the costs. Transcontinental rail operators in Chongqing and Zhengzhou are also improving transport options to domestic and European clients – such as online booking, free short-term warehouse storage and services for loads measuring less than a container. Sales offices in Warsaw, the German city of Duisburg, Shanghai and Hangzhou are planned to attract manufacturers from different industries. A temperature-controlled freight cargo service on the Chongqing-Xinjiang-Europe route is planned to gain more market share in handling temperature-sensitive products such as Dutch dairy goods, German vaccines and chemical products. Coastal cities such as Guangzhou, Lianyungang and Suzhou also plan to fully open new rail routes to Europe, the China Daily reports.

## Xian develops as an international cargo hub

Xian, the capital of Shaanxi province, is expected to develop as an international cargo hub serving China, Central Asia and Europe, after a cooperation agreement was signed by the Xian International Trade and Logistics (ITL) Park and Kazakhstan's National Railway Co. The agreement, which was signed on April 14 in Astana, the capital of Kazakhstan, aims to develop international logistics between China and Kazakhstan, said Yang Mingrui, Director of ITL's Administration Committee. A trade delegation, led by Han Song, Deputy Mayor of Xian and Party Secretary of ITL, visited Central Asian countries in April to investigate and signed the agreement with Kazakhstan's national railway company. Under the agreement, Kazakhstan is expected to establish a new railway express company to organize and coordinate the transport of goods from China to Kazakhstan and the transit of cargo across Kazakhstan, including goods sent from ITL. "Every month, two container trains will be sent from ITL to Kazakhstan and the goods will be distributed in Kazakhstan to other Central Asian countries. Meanwhile, Kazakhstan's railway express company will make ITL its cargo distribution hub for its international logistics business," Yang said. ITL intends to build a special economic zone industrial park in Horgos, a border city in Xinjiang next to Kazakhstan. A logistics pier in the park will distribute goods from China's inland regions to Central Asia, Russia and Europe, Yang added. The Chang'an train was the first international cargo train to run from Xi'an to Kazakhstan and started operating on November 28, 2013. It was also the first freight train to run directly from inland Shaanxi province to Central Asian countries. China Railway Corp plans to form an express railway route from China to Europe. The Chang'an freight train will follow one main route and two branch routes. The main 9,850 km route was designed to link Xian with Rotterdam. One of the branch routes will run from Xian to Kazakhstan and the other from Xian to Moscow. To date the Chang'an international freight trains have run seven times. In April, the trains ran twice with 104 carriages, the China Daily reports.

## WAREHOUSING

### Logistics upgrade needed to support China's e-commerce boom

Alibaba's plans for a giant initial public offering (IPO) in New York highlight vast potential for e-commerce in China – and the weak link the logistics industry must fix if explosive growth projections are to be reached. The ageing warehouses that supply goods to customers in China are lacking the automation and state-of-the-art technology that has fueled the rise in the United States and Europe of [amazon.com](http://amazon.com). By 2020, China's e-commerce sector will be larger than those of the U.S., Britain, Japan, Germany and France combined, consultancy KPMG said in a recent report. To cope with the China surge, as much as USD2.5 trillion may need to be invested in buying land and constructing warehouses alone over the next decade and a half. "Over the next 15 to 20 years, the real cost of building warehouses is going to be staggering," said Jeff Schwarz, co-founder of Global Logistic Properties, the biggest foreign

builder of logistics facilities in China. With each new facility the size of several large sports stadiums, that translates to about 2.4 billion square meters of new warehouses – an area close to two-thirds of the total land mass of Taiwan. Global Logistic estimates the USD2.5 trillion needed over the next 15 years will still only increase per capita fully-automated modern warehouse space to just a third of that in the U.S. Alibaba controls 80% of all online retail in China, and its logistics partners delivered five billion packages last year. Warehousing is a key to the supply chain across the e-commerce industry. Boston has more modern warehouses than the whole of China, says Stuart Ross, Director of Industrial at property consultancy firm JLL China. Less than 20% of China's warehouses are categorized as modern. Improving the logistics of China's warehouses has been prioritized by Alibaba co-founder Jack Ma, who announced a plan to lead a consortium to invest USD16 billion in the first phase of building Alibaba's national logistics business unit. Since the beginning of last year, about USD22 billion has been earmarked by buyout firms, including Blackstone and Carlyle, and private companies, to buy land and build new warehouses in China, the South China Morning Post reports.

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