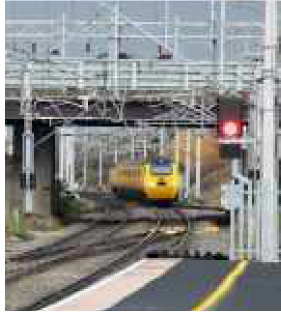
# Railway Gazette

INTERNATIONAL

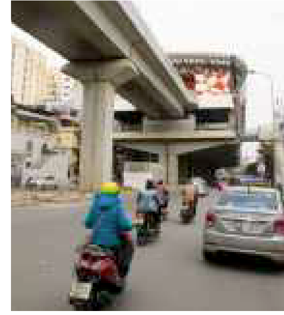


**TRACK MAINTENANCE**

**Automated inspection**

Plain Line Pattern Recognition underpins NR efficiency savings

PAGE 32



**SOUTHEAST ASIA**

**Vietnam**

Metro projects in Hanoi and Ho Chi Minh City make slow progress

PAGE 42

**IN FOCUS**

**China**

350 km/h Beijing – Shenyang PDL heads a host of new line openings

PAGE 50

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# Tackling the traffic in Jakarta

Chris Jackson **COMMENT**

*'China's export ambitions have not surprisingly set alarm bells ringing among established suppliers in the west'*

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# Going off the boil

On the face of it, the headline numbers remain breathtaking. As we report on p50, China added almost 5 000 km of new railway during 2018, taking its national network to more than 130 000 km, and the designated 'high speed' network to 29 000 km. A further 6 800 km is scheduled for completion this year, with a target of 150 000 km in sight.

Over the past two decades, we have become inured to the astounding statistics presented by China Railway Corp year after year. Yet there are signals that not everything in the Chinese garden is rosy. The official target for national economic growth in 2019 is just 6%, comparatively strong by international standards but well down on the peak of 14% achieved in 2007. This is partly intentional, driven by a regulatory clampdown on lending from late 2017 to cool China's booming levels of debt. However, economists suggest that the downturn has been sharper than expected, as the tighter fiscal regime has discouraged companies and individuals from spending. Even the 6·5% growth rate achieved last year seems to have been propped up by higher government investment.

Railway construction has undoubtedly benefited from substantial government largesse, but for some time Chinese academics and international observers have been questioning whether CRC's many new lines will ever earn sufficient returns to pay off their capital cost. While railway spending does stimulate development, and has brought trains to regions previously unserved, successive projects become less profitable as lines are pushed into less and less economically active regions.

A study by German management consultancy SCI Verkehr published last month suggests that the Chinese rail sector has already started to lose momentum. Estimating the total market value of railway technology and services at around €34bn per annum, the consultants predict that this figure will grow by just 0·6% over the next five years. The report says expenditure peaked at almost €120bn in 2010 and 2015, thanks to successive government economic stimulus initiatives, but since then 'a certain level of saturation has been observable'.

Overall spending remains at a high level, with around 900 high speed trainsets, 4 000 locomotives and 210 000 freight wagons to be procured over the three years. However, SCI Verkehr anticipates that the rolling stock sector will decline at around 3·4% per annum after 2020, 'mainly due to decreasing procurements in the high speed segment'. That will be offset by dynamic growth in after-sales business, estimated at 7·1% per annum, thanks to increasing demand for spare parts and maintenance.

**0·6 %**

GROWTH IN THE CHINESE RAIL SECTOR PREDICTED OVER THE NEXT FIVE YEARS

In the early days, China's expansion drive relied on imported technology, but domestic manufacturers have become increasingly self-sufficient. SCI Verkehr is not alone in suggesting that falling demand raises the risk of 'significant overcapacity' among Chinese suppliers, notably the three large state-owned enterprises CRRC (rolling stock), CRCC (construction) and CREC (engineering).

These companies are already looking to offset the domestic saturation through a stronger focus on exports, securing contracts 'in almost all regions of the world'. Under the umbrella of the state-sponsored Belt & Road Initiative, Chinese firms have been assiduously hoovering up major contracts in third countries across Africa, Latin America and Southeast Asia (p40), backed by government-backed soft loans.

But even here, attitudes are changing. With Chinese investment pouring into all sorts of infrastructure projects, recipient and potential recipient countries are starting to question whether the resulting huge levels of debt are sustainable. Some are also concerned about 'neocolonialism', and the risk of leaving themselves open to undue political influence in the future.

In December, the *Financial Times* pointed out that both the 718 km electrified Addis Ababa – Djibouti line, built at a cost of US$4·5bn, and the Mombasa – Nairobi standard gauge railway with a US$3·2bn price tag had already 'run into financial and operational difficulties'. Chinese investors were reported to have written off more than US$1bn on the Ethiopia project alone, and in September President Xi Jinping warned against pursuing 'vanity projects' rather than properly developed economic initiatives.

China's export ambitions have not surprisingly set alarm bells ringing among established suppliers in the west. The June 2015 merger of CSR and CNR to create CRRC as 'the world's largest rolling stock manufacturer' has been a key argument in the case for the proposed Siemens-Alstom merger (RG 1.19 p24), on which the European Commission's competition directorate is due to rule imminently. While French government insiders are reportedly pushing for the deal to be waved through, subject to a few caveats, to create a new 'European champion', Germany's competition authority seems opposed to the consolidation, specifically highlighting the signalling and high speed train sectors as areas of concern.

The SCI Verkehr study suggests that Chinese suppliers 'are still not of key significance in larger regions such as Europe, North America and the CIS'. But looming overcapacity challenges at home could see the competitive pressure ratchet up further. ■