

Sinolytics Primer

China's growing logistics footprint in Europe – seeking cooperation and bracing for competition

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Sinolytics – a European research-based consultancy entirely focused on China

Profile

- Founded in 2017, Sinolytics is a client-serving, research-based consultancy with offices in **Berlin, Zurich and Beijing**
- Uniquely blending **in-depth research** with management consulting approach to **problem solving**
- Operating at the **nexus of business and policy** and analyzing **China's political economy**, Sinolytics advises companies from across business sectors and functional areas
- **More than 40 clients**, including some of the largest and most respected foreign companies operating in China

Key expertise areas



Policy/regulatory analysis, monitoring & forecasting (e.g. SCS, sustainability, cybersecurity, industrial policies)



China's digital transformation with focus on Blockchain, digital currency, e-Commerce and Insur/FinTech



Cooperation/partnerships (e.g. tech-transfer/partnerships, subnational/city-partnerships, trade associations)



The Belt and Road Initiative – with focus on challenges and opportunities for foreign logistics, finance and EPC sectors



China's innovation and technology policies impacting corporate strategies and offering cooperation opportunities

Approach

Primary source and Chinese-language research

Problem-solving and developing tailored solutions

Flexible delivery formats: strategies, reports, workshops

Depth in content, while strong in contextualization

Extensive expert network and research partners

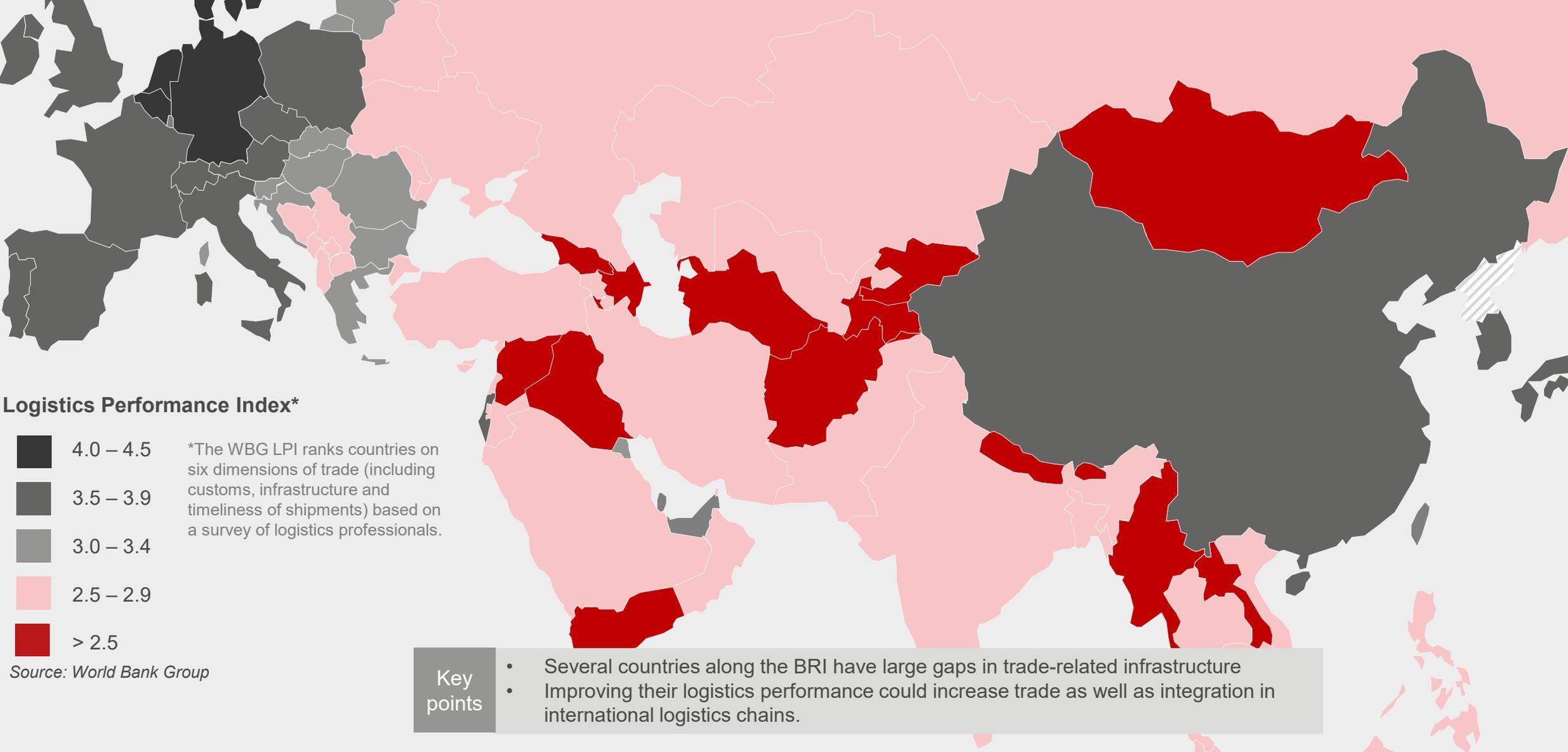


1 The BRI driving China's global logistics ambitions

2 Impact on key European logistics sectors

3 Sinolytics value proposition

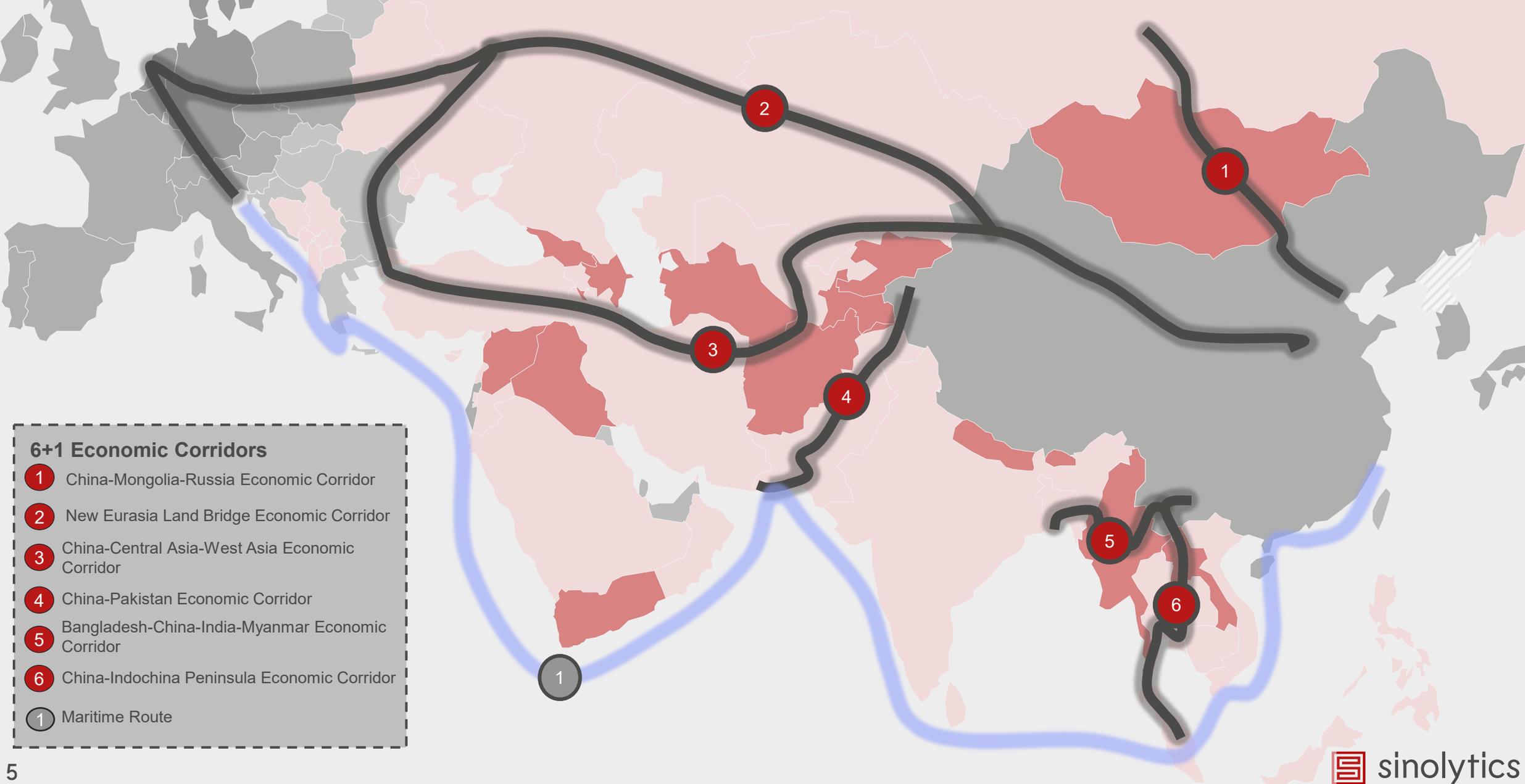
Significant Eurasian connectivity gaps persist



Key points

- Several countries along the BRI have large gaps in trade-related infrastructure
- Improving their logistics performance could increase trade as well as integration in international logistics chains.

BRI's "Maritime Road" and overland "economic belts" address these connectivity gaps



China's global logistics ambitions bolstered during COVID-19 with manufacturing-logistics nexus...

April 2020: «Opinions on promoting deep integration of express delivery industry and manufacturing»

Key policy ambitions



中华人民共和国工业和信息化部

Ministry of Industry and Information Technology of the People's Republic of China

两部门关于促进快递业与制造业深度融合发展的意见

制造业是国民经济的主体，是快递业发展的重要需求基础。快递业是现代服务业的重要组成部分，为制造业发展提供重要服务保障。促进快递业与制造业深度融合，对推动制造业提质增效和快递业转型升级、建设制造强国和邮政强国，实现经济高质量发展具有重要意义。近几年，在国家邮政局、工业和信息化部推动下，快递业服务制造业涌现出一批典型案例，形成了若干有效模式。但快递业服务制造业仍处在起步阶段，存在规模效益不明显、融合发展不深入、服务能力不适应和配套支持政策不到位等问题。为深入贯彻落实中央关于推动先进制造业和现代服务业深度融合的重大决策部署，促进快递业与制造业深度融合，现提出以下意见。

一、总体要求

(一) 指导思想

以习近平新时代中国特色社会主义思想为指导，全面贯彻落实党的十九大和十九届二中、三中、四中全会精神，加快发展现代服务业，促进制造业优化升级；推动快递业深化供给侧结构性改革，提升服务能力，健全产品体系，应用新技术新模式，创新发展供应链；推动制造业向价值链中高端迈进，聚焦制造主业，打造核心竞争力，促进产业链上下游企业协同采购、协同制造、协同物流；深化产业合作，完善工作机制，构建与制造业高质量发展相适应的快递物流服务体系，形成快递业与制造业深度融合的发展格局，做优做大供应链服务，为实现经济高质量发展提供重要支撑。

(二) 发展目标

到2025年，快递业服务制造业范围持续拓展，深度融入汽车、消费品、电子信息、生物医药等制造领域，形成覆盖相关制造业采购、生产、销售和售后等环节的供应链服务能力，培育出仓配一体化、入厂物流、国际供应链、海外协同等融合发展的成熟模式，培育出100个深度融合典型项目和20个深度融合先行区。快递业服务制造业的能力和水平显著提升，相关制造业供应链组织效率、市场竞争力显著提升，实现互利共赢、相融相生、耦合共生。

Jointly published by the **Ministry of Industry and Information Technology (MIIT)** and the **State Post Bureau** in April 2020

支持制造企业与快递企业签订中长期合同，建立互利共赢、长期稳定的战略合作关系。

“Support manufacturing companies and courier companies to establish mutually beneficial and long-term stable strategic cooperative relations”

支持制造企业联合快递企业研发...技术装备，加快推进制造业物流技术装备智慧化。

“Support manufacturing and courier companies to develop technical equipment and accelerate the intelligentization of manufacturing logistics technology equipment”

支持快递企业与制造企业加强国际发展战略对接，强化境外资源共享，伴随出海、协同发展。

“Support courier and manufacturing companies to strengthen their international development strategy and overseas resource sharing and accompany their overseas development”



“Study to accelerate **improvement of international freight capacity** and ensure the **smooth flow of the international logistics supply chain.**”

- Li Xiaopeng, Minister of Transport

- Global and integrated **supply chains and logistics network**: Global supply chains seen as key area of China's future competitiveness
- Advancing **vertical integration** of purchasing, manufacturing and logistics especially for **automobile, consumer goods, electronics, biomedicine**
- Forming **supply chain service capabilities** covering the purchase, production, sales and after-sales
- **Risk management strategy** dealing with potential new challenges after the current global pandemic
- **High tech application** via supply chains

... building on existing multi-layered policy tool-box – implemented with four key pillars

Key policies	Policy objectives
Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road	<ul style="list-style-type: none"> • Outlining framework, key areas of cooperation and cooperation mechanisms regarding BRI • On land, focusing on jointly building a new Eurasian Land Bridge and setting up key economic industrial parks; at sea, focusing on connecting major sea ports along BRI
Medium- and long-term plan for logistics industry (2014-2020)	<ul style="list-style-type: none"> • Setting annual 8% growth rate for logistics industry • Forming large-scale logistics firms via shareholding, M&A, reorganization • Developing international maritime hubs, integrating railway station and ports and improving efficiency of logistics
Cross-border e-Commerce pilot areas	<ul style="list-style-type: none"> • The number of pilot areas has been increasing every year since 2018, currently amounting to 105 pilot areas • Building up logistics special lines targeting key countries
Guideline for „Intelligent Shipping”	<ul style="list-style-type: none"> • Meeting the increasing logistics demand between China and Europe because of the trading boost along BRI • Infrastructure construction: railway, logistics hubs
China Railway Express development plan	<ul style="list-style-type: none"> • Developing intelligent shipping as a new business model • Improving intelligent level of ports and navigation • 2025 plan: finish initial framework, regulation and standards system

4 key pillars

- 

National champions contribute to high growth rates of logistics industry and extend global networks.
- 

e-Commerce giants benefit from favorable policies to build out logistics hubs and railway connectivity.
- 

Intensive and ambitious government guidelines set targets for the **high-tech development of the logistics industry**.
- 

Comprehensive and effective **commercial diplomacy** is promoting the internationalization of Chinese logistics companies.

Pillar 1: COSCO's policy-backed sprint to becoming a global integrator for container logistics



COSCO as national champion

COSCO's rise to a world-class shipping company is the result of a political strategy by the Chinese leadership.

1 SOE consolidation:

The government-backed merger of COSCO and China Shipping has created one of the largest national champions.

2 Ambition of intelligent shipping:

COSCO participates in government-funded technology projects, such as the 5G smart port in Xiamen and the national intelligent shipping satellite communication platform.

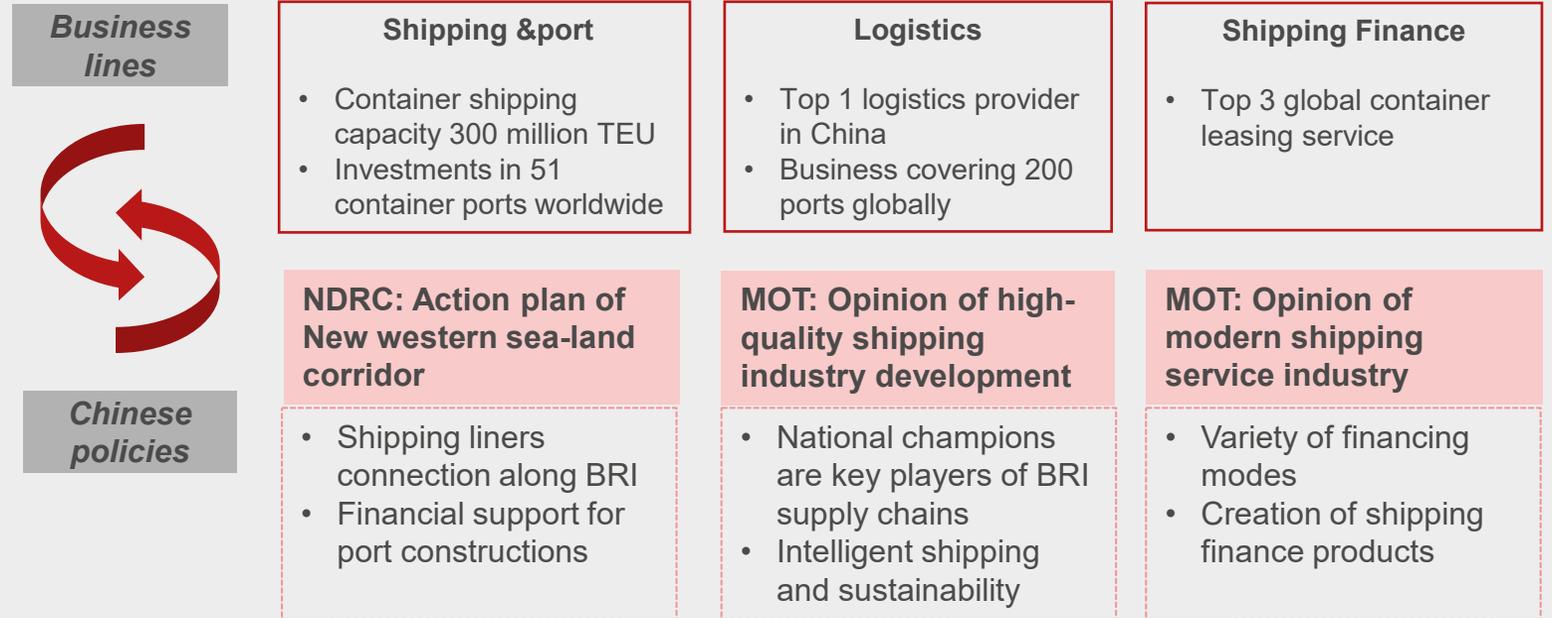
3 Strength of BRI network:

COSCO leverages China's BRI network, shipping 1.72 million TEU of freight along the BRI by May 2019.

4 SOE Cooperations:

Horizontal cooperation with Chinese SOEs, such as China Railway Group, opens up business opp. for COSCO.

COSCO's business portfolio: 3 priority businesses leveraging Chinese BRI policies



- The global business of COSCO is strongly **benefitting from supporting policies and strategic plans** of Chinese government authorities
- Compared to other integration container logistics strategies, COSCO is mainly focusing on global **supply chain build-up and infrastructure constructions**, in line with the Chinese government's BRI ambitions

Pillar 2: Cainiao at the core of Alibaba's ambition to build a global logistics network

High ambition levels

National logistics ambition:

Global "123" networks

- "1-day delivery within China, 2-day to neighboring countries and 3-day across world"

Central gov. investment fund for logistics infrastructure construction

Alibaba's ambition:

Building China's smart logistics network

- 6 global eHubs serving Global "123" networks and BRI

Cooperation with Chinese logistics players in global expansion

- Cooperating with LOGINK, a governmental logistics platform
- Gradually buying stakes from five Chinese major express companies
- Signing framework agreements with local governments



Cainiao's Global logistics network



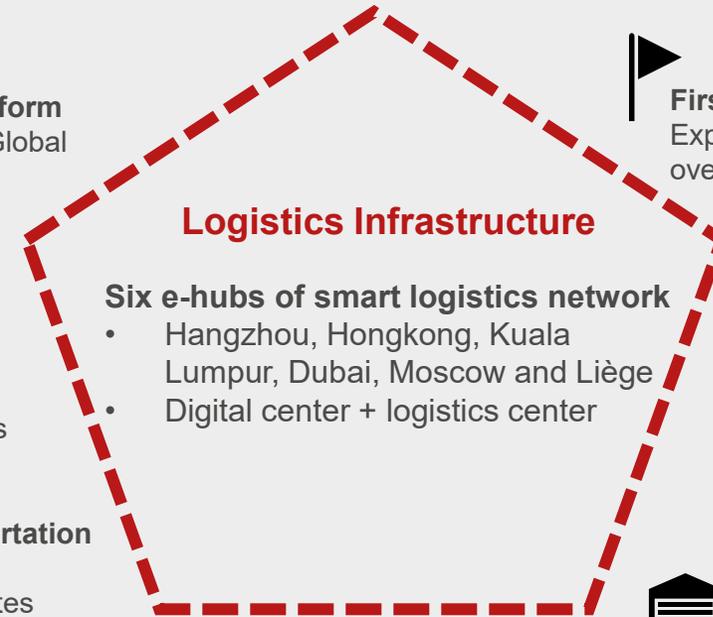
Global E-commerce platform
Taobao TMALL, TMALL Global
AliExpress



Coverage
- 200+ Cainiao integrated logistics service partners
- 220+ countries and regions



European specific transportation network
- 2 charter flight delivery routes
- 2 China-Europe Railway Express routes



First mile Pickup

Expanded first mile pickup network to over 33 countries and 142 ports



Bonded warehousing

Largest bonded warehousing network in China



Overseas warehousing

14 GFCs in US, Russia, France, Spain, Malaysia, Australia, etc

Europe as priority: Key intercontinental Cainiao routes are connecting Europe and China
Cainiao mission in line with national policy: 24h delivery anywhere in China, 72h delivery globally

Pillar 3: Chinese tech applications competitive and present across key logistics sectors

Technology	Description
 Smart ports	Chinese terminals are leveraging 5G technology to develop smart ports <ul style="list-style-type: none">• Electronic data collection and exchange on freight traffic• Real-time monitoring of freight and automation of operations, electronic shipping orders
 Warehousing solutions	Warehousing is rapidly becoming automatized <ul style="list-style-type: none">• In 2018, Cainiao launched its first fully automated warehouse, equipped with over 100 automated guided vehicles
 Intermodal solutions	Intermodal is still in early stages, but expanding <ul style="list-style-type: none">• RFID-based port access and container pick-up for trucks and trains• Open data exchange platforms between shipping companies, ports, and logistics
 Railway technology	Chinese railway companies invest heavily in R&D <ul style="list-style-type: none">• Chinese companies offer railway technology in areas such as energy efficiency, augmented reality, localization technology, shared mobility, and cybersecurity
 Tracking and navigation	Beidou has become a competitive alternative to GPS <ul style="list-style-type: none">• Beidou navigation satellite system consists of 54 satellites covering the globe and is used in sectors such as public security, transportation, smart cities and mass market applications
 Blockchain	Chinese government promotes blockchain application in logistics <ul style="list-style-type: none">• Pilots for applications in customs have been started in Xiamen and Quanzhou• China Merchants Group builds blockchain platform for supply chains

Supported by central government policies, Chinese companies are offering cutting-edge and innovative technologies for the logistics sector

Pillar 4: Comprehensive and effective commercial diplomacy – example of Piraeus

Key Chinese official engagements in Piraeus leading to commercial results



Sister-city-partnerships

Piraeus is twinned with the two port cities of Shanghai and Qingdao

Government-to-government agreement

China and Greece signed the *2020-2022 Cooperation Plan on Key Areas* in April 2019, which includes Piraeus as top priority

High-level meeting

President Xi and Greek PM visit Piraeus Port, hailing BRI cooperation in Nov 2019



Translating into concrete commercial results

Cruise Terminal Expansion

Feb 2020, COSCO announced development plan for Piraeus Cruise Terminal project

Continuing investment project from COSCO

COSCO's €600 million investment to further boost role of Piraeus as a hub has been announced in Nov 2019

COSCO's success has translated in opportunities for other Chinese companies

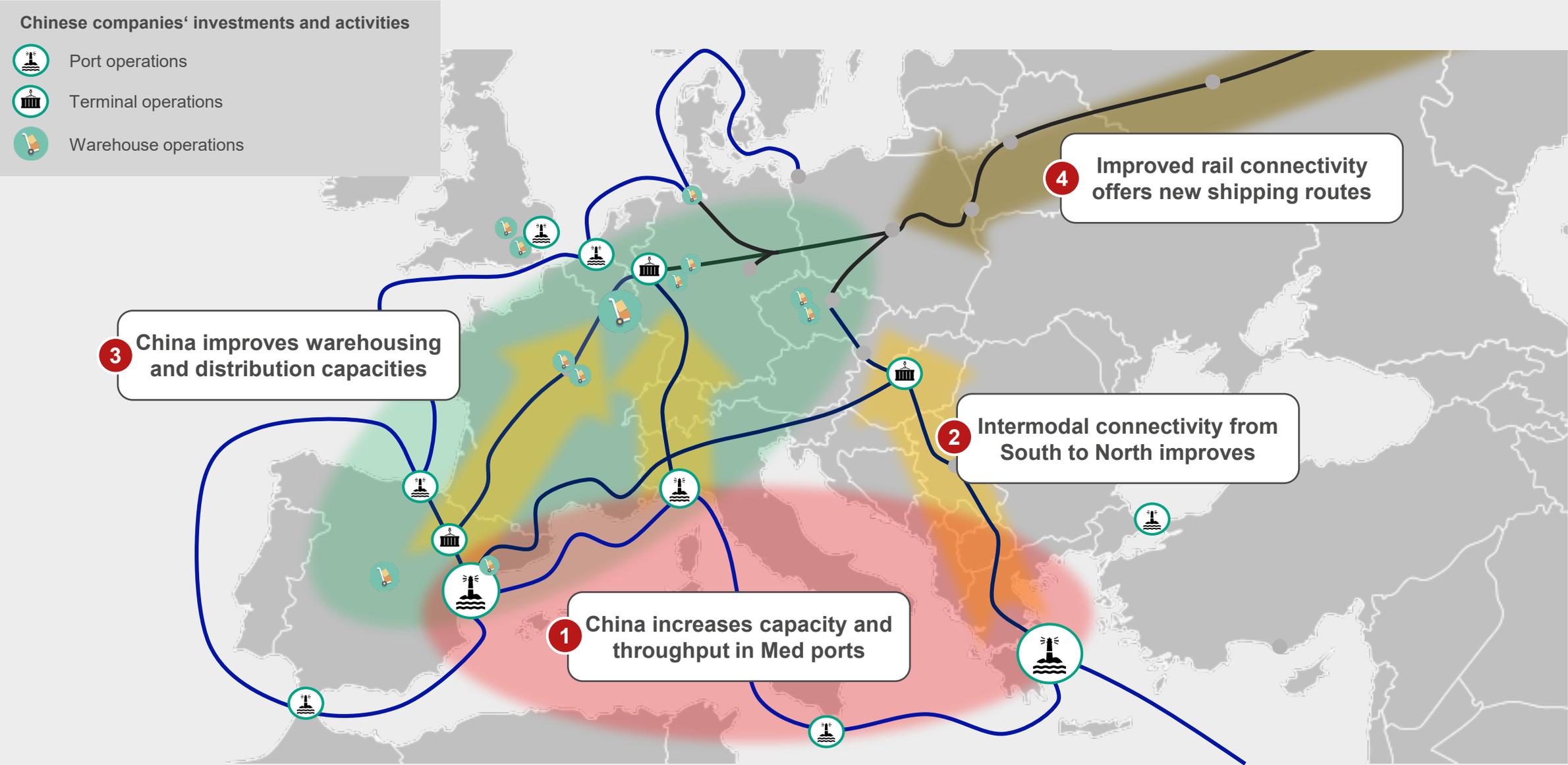
Piraeus Port Authority SA assigned the project of modernizing its network Infrastructure to Huawei in Nov 2018

1 The BRI driving China's global logistics ambitions

2 **Impact on key European logistics sectors**

3 Sinolytics value proposition

Four key impacts in Europe from China's international logistics ambitions...

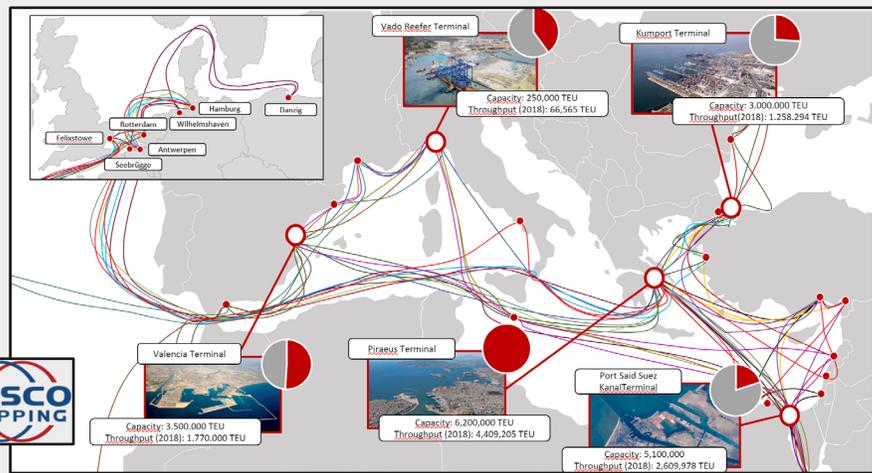


... all simultaneously creating cooperation opportunities and competition for European logistics

Impact	Description	Exemplary firms impacted	Exemplary CN partners
<p>1</p> <p>Port operations</p>	<ul style="list-style-type: none"> Chinese port operators have acquired significant stakes in major European ports in Northern Europe as well as in the Mediterranean Chinese shipping giants are re-directing their shipping lines through Chinese-controlled ports Chinese acquisitions strongly focused on Mediterranean, potentially challenging the dominant position of Northern European ports 		
<p>2</p> <p>Intermodal connectivity</p>	<ul style="list-style-type: none"> Major intermodal hubs are built and operated by Chinese actors within Europe Chinese shipping carriers are increasingly integrating vertically, incorporating intermodal transport into their business 		
<p>3</p> <p>E-Commerce</p>	<ul style="list-style-type: none"> E-commerce is major source for growing cross-border trade between EU and China Chinese e-commerce firms increasing their European footprint and are moving into warehousing and last-mile delivery 		
<p>4</p> <p>EU/Europe-China railfreight</p>	<ul style="list-style-type: none"> EU-China rail freight substantially increased over last few years As part of the BRI, Chinese companies are constructing and operating various railway lines in Eurasia, controlling a significant share of trade routes to the EU/Europe 		

1 COSCO's acquisition of Med ports is reshaping European maritime trade

Chinese port acquisitions in the Mediterranean are changing traditional shipping routes



Red indicates COSCO share



With the acquisition of major ports, COSCO has built a **strong presence in the Mediterranean.**

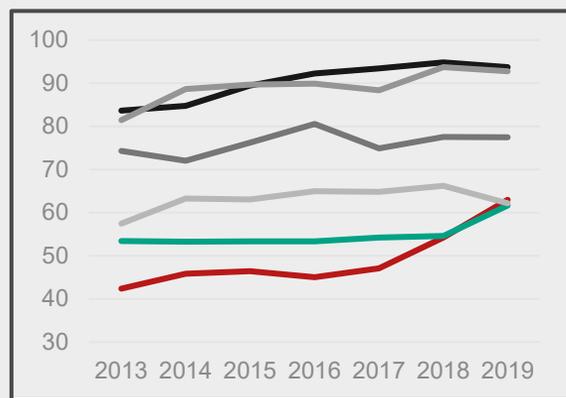


COSCO is directing most of its shipping lines to its owned ports, using Piraeus as shipping hub.



Med ports have seen **sharp increase in activity and capacity** since COSCO's acquisitions.

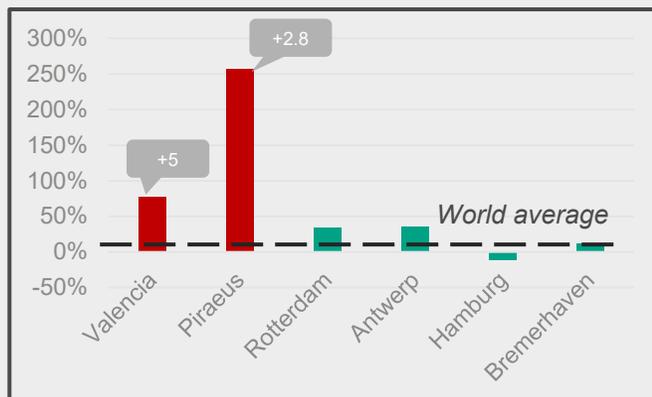
COSCO-controlled Med ports are quickly increasing connectivity integration and throughput capacity



Port Liner Shipping Connectivity Index*

Legend:
 - Rotterdam
 - Antwerp
 - Hamburg
 - Bremerhaven
 - Valencia
 - Piraeus

Growth of top ports in Med vs Northern Europe (2007-2016)



+X Indicates planned capacity growth in million TEU

Key findings

- 1 Through Chinese investments and activities, **Mediterranean** has become an **important logistics hub.**
- 2 Construction of **supporting infrastructure** in Med ports increases their competitiveness and **shortens transit times.**
- 3 Increasing capacity in ports possibly **diverts Northern shipping routes** to Mediterranean.

Implications for key logistics sectors



Port and terminal operators need to prepare for **increasing competition** from South Europe.



Freight forwarders can cooperate with Chinese companies to **increase services through Mediterranean.**

2 End-to-end: Chinese shipping carriers are moving into intermodal connectivity from four nodes

COSCO aims to become a provider of comprehensive container logistics services

-  COSCO shifts to vertical integration as consolidation wave in shipping is nearing end.
-  The company has **invested** in integrated logistics providers as well as rail operators.
-  Since COSCO's investments, **intermodal throughput** from Southern to Central Europe has **steadily increased**.

PEARL is a Greek rail operator that offers weekly trains from Piräus to Central Europe.

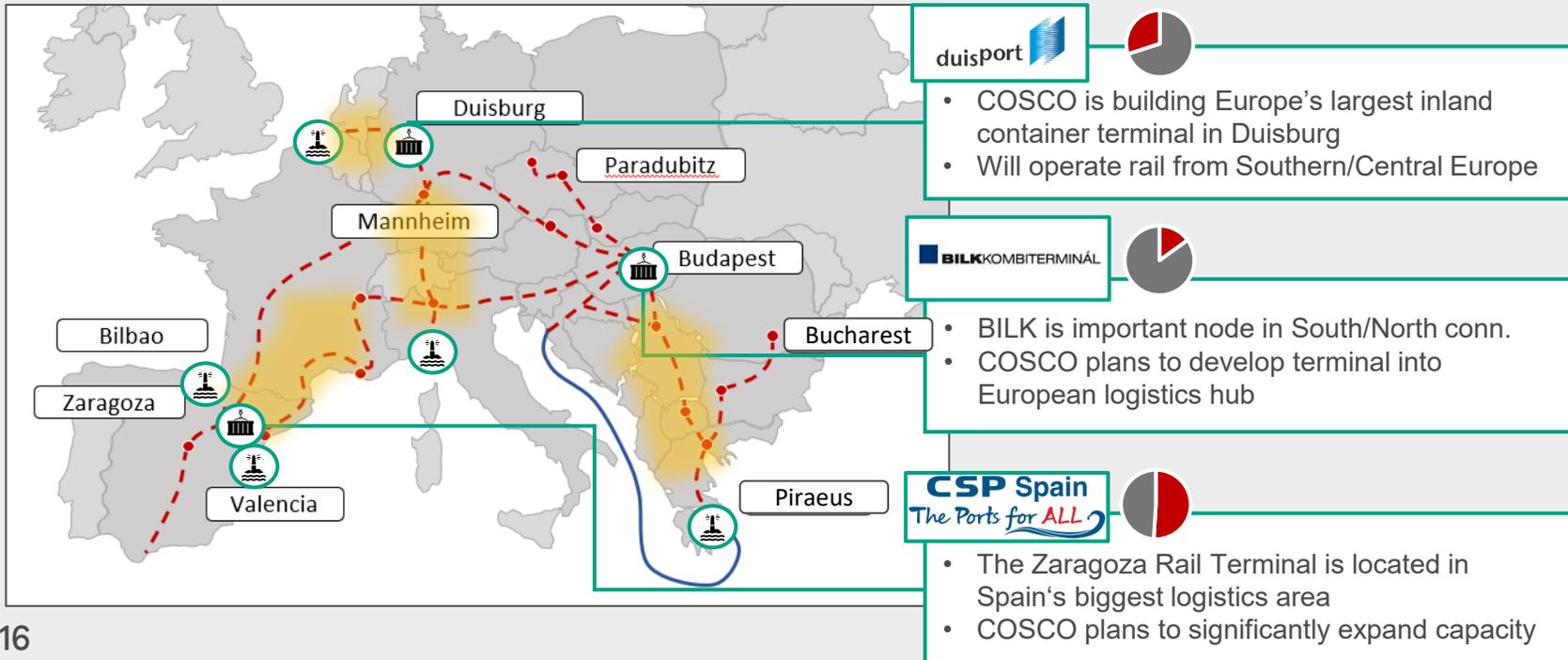
COSCO share



Oceanrail Logistics is a COSCO subsidiary building an integrated intermodal logistics platform in Europe.



COSCO owns or operates several intermodal terminals in crucial connectivity nodes



Key findings

- 1 Chinese carriers increasingly move into intermodal connectivity, **capturing more of the value chain**.
- 2 Chinese control over critical connectivity nodes potentially **reshapes Europe's logistics networks**.
- 3 China's development of land-sea route via the Balkans is a method to **increase its share in EU-China maritime container freight**.

Implications for key logistics sectors

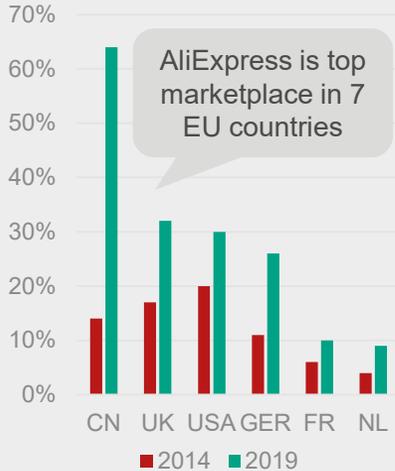


Entrance of COSCO in railway operations might **cut into market share** of established intermodal companies.

Chinese cross-border e-commerce is rapidly expanding footprint in Europe

Chinese e-retailers are the first choice for Europeans' online shopping abroad

Survey results: Countries from which Europeans have shopped online



Growth of international parcels in EU27 (in million)



European USPs team up with Chinese logistics companies to serve as 'gateway' to Europe



Magyar Post (HU) started JV with ZTO Express (CN) to set up a European logistics base.



Omniva (ES) launched JV with SF Express (CN) to shorten delivery time from China to EU.

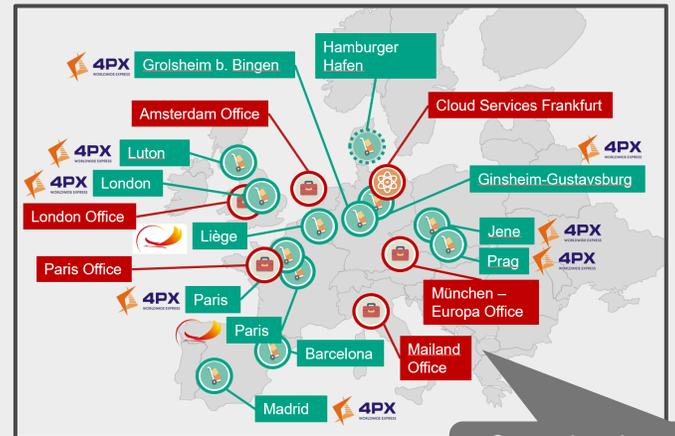


PostNL (NL) and AliExpress have established „PostNL Gateway to Europe“ as single entry point for parcels destined for EU.

Key findings

- 1 Demand from Chinese e-retailers has become a significant growth driver for **international parcel services** in EU.
- 2 Chinese e-commerce giants are **building out their European logistics network** from warehousing to last mile.
- 3 European USPs increasingly **tailor their services to parcel deliveries from China**.

To support increase in demand, Alibaba is building out EU logistics network supported by Chinese gov. policies



AliExpress has become the **second most popular cross-border online retailer** in Europe with 16% of market share after Amazon (23%).

Alibaba has significantly **increased its warehousing capacities** across Europe through greenfield investments and acquisition of logistics companies, **guided by government support** to build overseas warehouses.

Alibaba is moving into last-mile delivery, **investing in Chinese couriers** such as ZTO Express, STO Express, YTO Express, and is rumored to take **stake in Hermes**.

Cross-border e-commerce trade with China grew to €17.6 billion in 2018

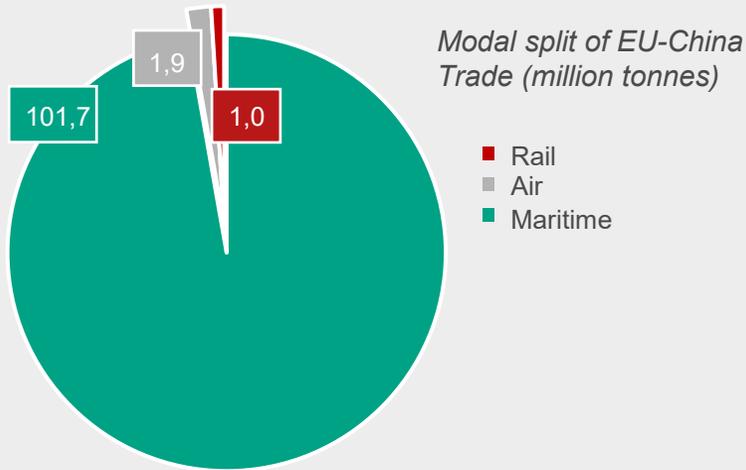
Implications for key logistics sectors

European couriers and USPs need to **increase cooperation with China** to capture growth of Chinese parcels.

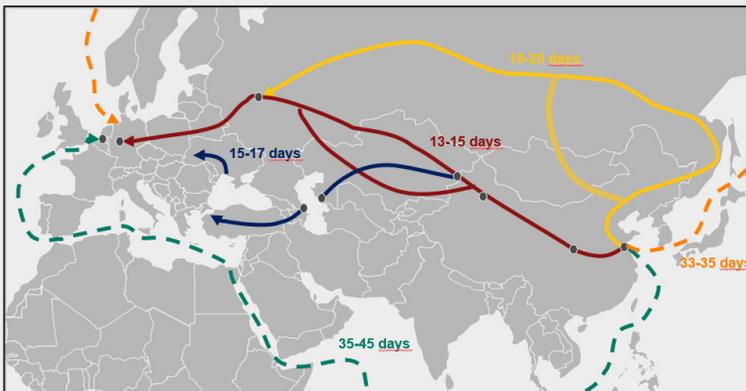
European online marketplaces, like Zalando, will have to **rethink their business strategies** as Chinese players are moving to Europe.

4 Direct rail freight connectivity from China is opening up new trade routes

Share of rail freight still comparatively low...

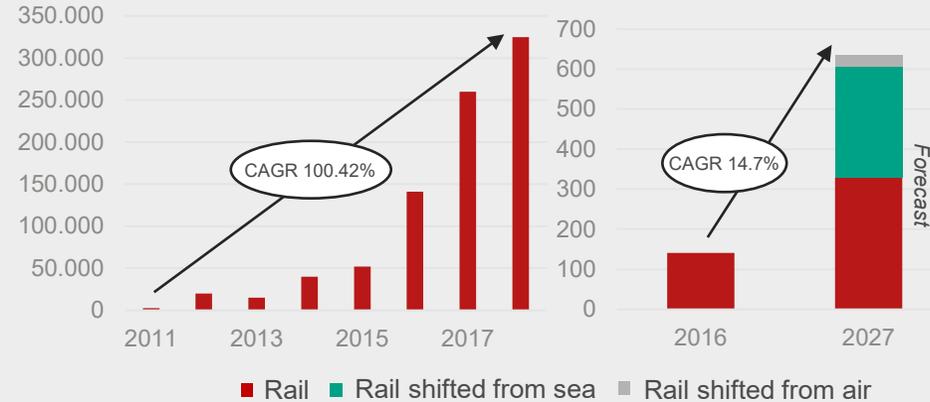


China is improving Eurasian rail connectivity along New Silk Road



...but volumes are rapidly increasing

EU-China Rail Cargo Throughput (thousand TEU)



International freight forwarders are partnering up with Chinese companies



DHL offers several rail services in cooperation with Chinese companies, cutting down transit time significantly.



DB Cargo opened three offices dedicated for rail freight services in Eurasia and operates several trains in cooperation with China Railway Express.



RCG has signed several cooperation agreements with Chinese firms to implement further high-frequency connections.

Key findings

- 1 China-driven **expansion of railway connectivity** has increased rail freight to EU/Europe.
- 2 International freight forwarders already capitalize on **creation of new trading routes**.
- 3 Rail freight remains **highly vulnerable to Chinese policy changes** in subsidies for freight trains running from Europe to China.

Implications for key logistics sectors



Continuing expansion of rail connectivity on BRI is **opportunity for rail operators to improve their services**.



Monitoring of Chinese policy changes necessary for freight forwarders to maintain their services.

1 The BRI driving China's global logistics ambitions

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3 **Sinolytics value proposition**

Sinolytics' Service Portfolio for European logistics firms and concerned public sector actors



Policy research & analysis

- We analyze the **Chinese government's policies** aiming at expansion of the Eurasian logistics footprint of Chinese firms; by considering geopolitical/geo-economic factors we **contextualize specific projects** and analyze risks and opportunities
- We analyze **interlinkages** between these policies and company-level strategies and initiatives of Chinese logistics actors

Market intelligence

- We conduct research and gather relevant information to understand **Chinese logistics companies' strategies, business models, ownership structures/key personnel, investments and flagship projects** with relevancy to the European logistics landscape and individual firms

Strategies

- We co-develop **business strategies** with our clients for strategic China-related factors affecting their business
- We screen, assess and qualify potential Chinese companies relevant for general or project-specific **cooperation and partnership**, and we co-develop tailored and effective **negotiation strategies**

Investment & M&A

- We support **strategic due diligences, political assessments and target analysis** for investment and M&A projects in conjunction with Chinese logistics assets

Hands-on support

- To execute these strategies and assessments, we offer practical **negotiation facilitation** support and provide **outreach- and communication-support** to engage with identified potential Chinese cooperation partners

Sinolytics' expert team on Chinese logistics



Dr. Jost Wübbeke
龙信鑫
Director

Jost is an expert for the activities of Chinese logistic companies in Europe. He advises corporate clients especially in the areas of shipping, ports and intermodal transport and provides support to build partnerships with Chinese companies. Before joining Sinolytics, he was Head of Economy and Technology at the Mercator Institute for China Studies and put a focus on BRI. He has a PhD from FU Berlin on China's industrial policy. He also holds degrees in International Relations and China Studies from Berlin and Bochum and was a research fellow at Tsinghua University.



Markus Herrmann
陈瑞华
Director
MD Switzerland

Markus is an experienced advisor to European corporate and public sector clients with special focus on the Belt and Road Initiative for finance, EPC and logistics, as well as on negotiation and partnership structuring involving Chinese actors. Prior to Sinolytics, he worked as a Government Affairs & Advocacy Director with Bayer MaterialScience (now: Covestro) in China and as Management Consultant with Boston Consulting Group in its Shanghai, Hong Kong and Zurich offices, focusing on financial services and industrial goods. Markus holds a MLaw from the universities of Bern and Geneva focusing on international public law and WTO law and a CAS in Public Policy from ETHZ.



Martin Catarata
丁字涵
Analyst

Martin tracks Chinese investments along the Belt and Road Initiative and analyzes geopolitical and socio-economic shifts it causes. He has worked extensively on projects evaluating strategic opportunities and risks of the BRI for European companies, especially in the logistics sector. Currently, he is finishing his M.A. in European and East Asian Governance at Trier University and is about to start a dissertation on the topic of China's maritime connectivity advised by Prof. Heilmann. He holds a B.A in Sinology and Political Science from Trier University and studied the Chinese political system and Chinese language at Sichuan University.



Sishi Xie
谢思诗
Analyst

Sishi tracks and analyzes Chinese central and provincial policies relating to China's global logistics ambitions, deriving insights on the interlinkages of Chinese policies and company activities on the ground. Prior to Sinolytics, she gained working experience in both manufacturing and logistics sectors. She worked in Asia-Pacific purchasing team of BOSCH Thermotechnik and marketing team of HMM China HQ. She also gathered consumer service experience from Maersk and DB Schenker in Shanghai during her undergrad. She is currently finalizing her M.Sc in Economics at University Trier and holds a B.Sc of International Economics and Trade from the Shanghai Maritime University.



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