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China and Mongolia inland infrastructure development expanding with trade

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A number of factors are contributing to the People's Republic of China's inland infrastructure construction of highways, roads, railways, airports and container depots. Industrial and government investments are shifting from eastern coastal provinces to inland regions because of increasing costs of labor and land and more demand for logistics services are from a growing retail sector to satisfy consumer demand and not just for overseas exports. Infrastructure development is evident in the cities of Nanjing and Suzhou of the Yangzte River Delta outside of Shanghai as well as in central and western cities, provinces and autonomous regions such as Chengdu and Inner Mongolia Autonomous Region (IMAR) bordering Mongolia to North Asia.

China's Western Development Strategy toward inland investment for logistics infrastructure is always evolving. Since 1997, the government with World Bank assistance began and constructed by 2005 eight inland container depots (ICD) to improve the flow and storage of goods through the Port of Tianjin near Beijing and reduce economic disparities between coastal and inland areas. Baotou Transportation International Container Terminal, IMAR is one of these ICDs and an important link with Tianjin Port for shipments for Mongolia's fast growing economy. "We look forward to further improvements by the Chinese government to investing in more efficient transportation infrastructure and intermodal networks to accommodate for the expansion in the retail market over the next five years (PRC's 12th Five Year Plan)," said a spokesperson for Orient Overseas Container Line (OOCL) in a recent interview with the American Journal of Transportation.

The World Bank is continuing to assist China's transport infrastructure effort to increase their rail network to 120,000 kilometers by 2020 as proposed in China's Mid-and Long-term Railway Network Plan. The IMAR Huhehaote-Zhangjiakou $4.5 billion railway project along the Beijing corridor is in the works to improve containerized rail freight traffic to and from Mongolia. The Asian Development Bank (ADB) is also completing the final highway segment in Mongolia on Asian Highway 3 to link Ulaanbaatar capital city to border port Zamyn-Uud, then across to IMAR to increase container and project cargo through Tianjin Port.

Foreign Investors are recognizing the inland shift as proven by foreign direct investment (FDI) flows. China Daily reported recently, that the west accounted for only $12 billion of total 2011 FDI of $116 billion in China, but the west saw a growth rate of 28% or more than four times the rate in the east. Also, since 2007, the government policy selected 44 cities in the country's central and western regions as destinations for export-processing businesses for moving inland from coastal cities. This industrial shift is evident in the value of the processing trade inland, which increased by 78.4% to reach $82.3 billion in 2011 and from 2006-2011 accounted for 6.3% of the country's total value of processing trade from 2.5%.

Inland logistics services are receiving more attention from the government in order to make new transport infrastructure operational and up to international standards. In 2010, the National Development and Reform Commission (NDRC), the national central planning body, published policies to improve logistics for the inland market and set up a lead team to coordinate. The NDRC and the National Bureau of Statistics will issue data on logistics and keep the data updated. In addition, the NDRC will make policies for training, business standards and weed out low competitive logistics firms and improve the strong. "We think that all the above measures are needed, especially the weeding out system to help our logistics business be optimum," according to Cai Yu, founder and managing director of Transluck Logistics, a Shanghai based supply chain service provider.

Road transport is the dominant mode to serve the growing demands on the retail sector by logistics service providers and accounts for 71% of the transportation in China followed by rail of 17%, vessel 11.5% and air .5 percent. Transluck serves the retail industry inland to Chengdu, Beijing and Shenyang cities for department stores, hypermarkets, and shopping mall destinations. OOCL uses a combination of truck and barge options to move cargo through strategic inland destinations to meet customer needs and invested in a new world-class warehouse facility in Shanghai earlier this year.

Transluck saw the need for refrigerated logistics to serve fast moving consumer goods (FMCG) to its customers. "We find many FMCGs and supermarkets opened their e-shop on Taobao Internet network and on their websites, but lack meat, fruits and seafood because of underdeveloped refrigerated logistics services. Since 2008, we started refrigerated business and built a refrigerated warehouse with a team of 60 people. We use this facility and a refrigerated truck for a famous international chemical group with tracking and tracing of shipments for the whole journey which is useful experience to develop further in FMCG," said Mr. Cai Yu.

There is still much room for improvement for inland infrastructure and logistics services, especially for temperature sensitive goods. OOCL commented that the investment costs for cold chain storage and truck transport can be as high as three to five times more than normal warehousing and trucking which hinder national and integrated cold chain logistics services by small to medium size firms. Transluck Logistics cited the government monopoly in rail, air transport and cold chain infrastructure as state owned and therefore, logistics companies "cannot make competitive." There is also lack of understanding of concepts in China as to supply chain and cold chain management and that "we still have a long way to walk, learn from foreign concept, technology and standards to combine with the actual in the local market," said Cai Yu.

Cross-border infrastructure construction to China's neighboring countries is also in the works. The National Port Management Office released a plan to build 39 new ports or border crossings and expand 56 existing ones through 2015. Of China's 284 open ports, 146 are in coastal areas, 111 along borders and 27 inland, according to China Daily on May 4th. Mongolia to the north is benefiting from more border construction based on vast mineral resource exports such as coal, copper, iron ore and gold.

Mongolia's inland infrastructure investments and construction are lacking and China aims to assist in financing since bilateral trade was $6.3 billion in 2011 or an increase of 84.3% over 2010. Last year, the two countries agreed to a 'strategic partnership" based on $4.37 billion in exports to China or 91.3% of Mongolia's total export volume as well as China already accounting for a large portion of Mongolia's $5.3 billion in FDI in an $8.2 billion economy in 2011.

"We need a modern container yard with equipment in Ulaanbaatar for well functioning distribution of inbound and outbound shipments," said Ekhtuvshin, co-founder of Landbridge International Freight Forwarders in a recent interview with the American Journal of Transportation. The new highway between Ulaanbaatar and Zamyn-Uud border port will help, but the railway is still a single-track line, slow and there are problems with the availability of rail wagons, he continued. Mongolia's transport and logistics infrastructure is also hindered by the fact that key assets are controlled by a national and Russian joint venture monopoly, which impacts competition and profitability.

These infrastructure deficiencies undermine logistics service providers' capacity to handle not just natural resource exports, but to support the rapidly expanding service sectors in retail and transport. In 2011, the World Bank reported 17.3% gross domestic product (GDP) growth and in the first quarter of 2012, a 16.7% GDP increase year over year of which service sectors grew 51% (wholesale and retail trade) and transport 11.7% year over year. Building materials, perishables and other consumables are filling more import shipments due to the mining, construction at mining sites and of new apartments and urban population growth at present and forecasted for decades in Mongolia.