

RESEARCH ARTICLE



# Impact of COVID-19 on China Railway Express: A More State-led Approach to Develop Freight Train

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Published online: 25 Oktober 2024

## Abstract

The China Railway Express (CR Express) is an international railway freight train organised by China Railway Corporation, which has been travelling between China and Europe since 2011. Since its inception, the volume of the CR Express train has increased year by year and the variety of foreign trade goods has been enriched. During the COVID-19, traditional transport channels such as sea and air transport were severely hit, while the volume and product range of the CR Express grew against the trend. Under the impact of the epidemic, the booming development of the CR Express trains could not have been achieved without the guidance and support of the state, i.e. the CR Express trains moved towards a more state-led development model.

## Keyword:

## Introduction

### *A more state-led approach to infrastructure development*

The state-led development model, where the state plays a major influence in the infrastructure development process, has resulted in infrastructure receiving more resources and attention. This model of state influence for infrastructure development is very evident in China. The railway system is one of the most visible practices of the Chinese state-led model in the area of infrastructure development.

In the early 1990s, the World Bank and the Chinese government expressed concern about the ability of the railway system to transport enough coal to meet China's growing demand (Bordie et al, 2014). Against this backdrop, the Chinese government adopted a series of policies and instruments to guide and enable the development of the railway system. Entering the era of high-speed railway construction, the Chinese government similarly introduced a series of government-led policies and stated that the development of China's high-speed railway should be guided by the *Medium- and Long-Term Railway Network Plan*, and that the ultimate goal of railway development is to create an independently competitive Chinese brand of high-speed railway (Barett, 2014). Under the state-led model, China's railway system has broken through its weak foundation and moved towards world leadership.

In examining this model of state-led development, Fukuyama (2018) shows how China has led infrastructure investment for many years and used infrastructure as the basis for the Belt and Road Initiative. He argues that infrastructure investment is the Chinese government's development strategy to promote cooperation between Europe and Asia. The high level of infrastructure investment has also contributed to China's own development. Furthermore, Fukuyama (2018) argues that this state-led model benefits from China's authoritarian advantage; secondly, geopolitics and national policies are the main drivers

of infrastructure projects. The state-led development model will allow projects to generate favourable externalities and deepen the relationship of trust between the Chinese government and the host government (Fukuyama, 2020).

As a freight channel, the CR Express was born out of the political initiative "One belt, one road". The Chinese government had hoped to reduce state intervention, for example by cutting subsidies, and to move the train to a high level of marketisation. However, the outbreak of the COVID-19 caused a dramatic shift in the international situation. Rather than moving towards a more market-oriented development path, the CR Express has become a more state-dominated operation. Drawing on official reports and data, this paper will explain the new path of the CR Express in terms of political support, subsidy policies and efficiency optimisation.

### *Unique strengths under political influence*

In 2013, President Xi proposed the "One Belt, One Road" initiative. The initiative has brought China closer to Central Asia, the Mediterranean coast and Europe. By the year 2020, when the epidemic broke out, the Belt and Road Initiative had been endorsed by 138 countries and 31 international organisations, resulting in 201 cooperation documents (Ministry of Commerce, 2020). *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* clearly states that the "One Belt, One Road" initiative will focus on connecting the dynamic East Asian economic sphere at one end and the developed European economic sphere at the other (Chinese State Council, 2015). The 'belt' is a land route designed to connect China with Europe, and the CR Express is an important part of this land route. These political connections and outcomes provide a unique platform for the development of the CR Express in the context of the epidemic.

In the context of the epidemic, on April 3, 2020, the Ministry of Commerce issued the policy of *Effectively Stabilizing Foreign Trade and Foreign Investment and Promoting Consumption in Response to the COVID-19 Outbreak*. The second policy states that it is necessary to play a good role as an export channel for the CR Express, to export public products to Europe through the CR Express, and to ensure the smooth flow of the China-Europe industrial chain and supply chain. China's National Development and Reform Commission (2022) points out that the CR Express is an artery of interconnection for the high-quality construction of the "Belt and Road".

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Against the backdrop of country-led politics, by the end of 2020, the number of cities outside of CR Express has reached 92 and the number of operating routes has reached 73. At the same time, the figures show that the number of CR Express running and the volume of freight transported will increase by 50% and 56% year-on-year in 2020, while the total value of trade between China and Europe will increase by 4% and 18% in 2020 and 2021 respectively (Leading Group for Promoting the Construction of "One Belt, One Road", 2022). It is worth noting that the share of the value of goods transported by CR Express in the total trade between China and Europe is rapidly increasing from 1.5% in 2016 to 8% in 2021 (Shan & Zhang, 2019).

The relationship between the Belt and Road Initiative and the CR Express can be seen as a tool to accelerate the development of China-Europe relations, which is supported by a platform of political ties. The outbreak of the epidemic has provided an opportunity for the development of the CR Express, and has contributed to the improvement of national policies to further increase the impact and coverage of the CR Express. This state-led and flexible development mechanism is an advantage that cannot be matched by ordinary sea and air transport, and underlines the state-led nature of the CR Express.

### *Continuing state-led subsidy policy*

In the early years of the operation of the CR Express, the Chinese government adopted a policy of state subsidies to keep transport prices down and compete for the international transport market. However, due to the scale effect of bulk commodities, the cost advantage of rail transport has always been inferior to that of sea transport. Specifically, a typical CR Express train can only carry a maximum of 100 containers per truck, while the largest maritime container ships can carry almost 20,000 containers (Chen, 2021). In order to promote the development of the CR Express, the Chinese government has provided increasing state subsidies. The high subsidy policy has provided the CR Express with a political advantage for its development, but has also brought many doubts about its future independent development. In order to promote the marketisation of the CR Express, the central government has proposed a gradual reduction of the financial subsidies from 2018 until they are completely eliminated in 2022 (China Business News, 2019).

However, the outbreak of the epidemic has prevented the subsidy policy from moving in a market-oriented direction. Since 2020, the Chinese government has made use of the CR Express for a large number of aid shipments of public goods. Reports indicate that 368 special trains of epidemic prevention materials, totalling more than 3,000 tonnes of public goods, were run on the CR Express (Xi'an section) alone in 2021 (China Economic Network, 2021). With market-based transport channels such as sea and air transport blocked, the CR Express further exploits its political character. Due to the non-market-based operation, this makes it impossible to reduce the subsidy policy, which would otherwise affect the operation of the trains at special times. The Chinese government has therefore shifted from a general subsidy to a targeted national subsidy model for the CR Express. The state maintains the intensity of subsidies for special sections and special commodity transports in order to keep all types of trains operating efficiently (Feng et al, 2020). In the absence of a clear mechanism to reduce subsidies, regions will continue to maintain high levels of subsidy policies and invest more resources (Xu et al, 2021).

Therefore, in the particular circumstances of the epidemic, China's subsidy policy for the CR Express has not been substantially reduced. The adjusted subsidy policy has had a more pronounced effect on the development of the CR Express and has in fact restructured the way in which they operate economically. State subsidy policy has been shifted to specific trains that are in greater need of support in order to facilitate the expansion of the scale and impact of the CR Express. The reorientation of subsidy policy has thus led to a further reliance on the state-led model in the economic sense of the CR Express.

### *Government-led efficiency optimisation*

Following the outbreak of the COVID-19, quarantine requirements and procedures have been strengthened in almost all transport channels and national customs due to the insidious nature of the virus. Some countries even reduced the volume of goods imported to reduce the health threat posed by sea and air transport. This has left large volumes of goods stranded in overseas ports, international shipping routes have been drastically reduced, freight prices have soared and the normal functioning of the global supply chain is threatened. Against this backdrop, the Chinese government has seized the opportunity to promote the unique advantages of the China Railway Express.

In terms of national policy and implementation, shortly after the outbreak, the Ministry of Commerce clearly stated in April 2020 that it would "make good use of the policy of facilitating customs clearance for the transport of CR Express", "reduce the logistics costs of enterprises", and "improve operational efficiency and customs clearance facilitation" (Ministry of Commerce, 2020). In order to maximise the advantages of the policy, Customs has formed a working team to implement the policy. During the epidemic, it was reported that the manufacturer of the drug amoxicillin, WeiQiDa, was subject to significant restrictions on export channels by sea and air (Taiyuan Customs, 2020). Chinese customs staff actively engaged with the company to help it communicate with the CR Express. The customs officers guided the company to use government policies to export drugs through the CR Express. In the end, the export transportation time for this 16-ton shipment was reduced by more than 20 days compared to sea transport, saving more than RMB 5,000 per TEU.

The Chinese government is also actively promoting synergies and efficiencies in the countries along the CR Express. The Chinese government has actively introduced and improved two new customs clearance models, "AnZhiXian" and "GuanTieTong", to improve data sharing and customs clearance procedures in countries along the route, allowing for the rapid transport of goods. Reports indicate that by the end of 2021, there will be 11 rail ports along the China-European Railway using the new model, including Poland, Belgium, Hungary and the Netherlands (Leading Group for Promoting the Construction of "One Belt, One Road", 2022).

With the efficiency of channels such as sea and air freight suffering significantly, the efficiency of the CR Express has been increased to an unprecedented degree. Goods are able to be transported quickly across different countries and people do not need to undergo multiple quarantine and customs declarations. This counter-trend development is inextricably linked to the policy, implementation and cross-country coordination led by the Chinese government. It is to be expected that the development of the CR Express will be further boosted by the significant efficiency-enhancing effect of state leadership.

### **Conclusion**

In the particular circumstances of the spread of the COVID-19, the CR Express has not taken the ideal market-based path, but has relied more on the strength of the state to develop. In terms of political support, the Belt and Road Initiative provides an excellent platform for the development of the CR Express in the context of the epidemic. It has also led to a continuous optimisation and upgrading of relevant policies to further exploit the advantages of political support for the CR Express. In terms of subsidy policy, the adjustment of subsidies does not imply a more market-oriented mode of operation, but allows the disadvantaged trains, which are more in need of subsidies, to receive state support. In terms of operational efficiency, with the power of government and customs cooperation, the CR Express has shown an efficiency advantage that sea and air transport cannot catch up with.

The sudden outbreak of the epidemic has created a special opportunity for the development of the CR Express to move towards a more state-led path. Although this is a special change

at a special time, it is difficult to say whether the national attributes of the CR Express will be further enhanced in the future. What is certain, however, is that the state-led development path has indeed allowed the CR Express and even China-EU trade to develop a lot. It also provides a new research perspective to further study and examine China's infrastructure construction and development in the post-epidemic era.

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