China eyes creation of global rail leader
By Jamil Anderlini in Beijing
Published: January 5 2011 18:51 | Last updated: January 5 2011 18:51

China is considering merging its two dominant state-owned railway equipment producers to lead a high-speed rail export drive, in a move that would create the world’s largest company of its kind in terms of operating revenue.

If approved, the merger of China North Locomotive and Rolling Stock Corp (CNR) and China South Locomotive and Rolling Stock Corp (CSR) would form an entity controlling well over 90 per cent of the domestic Chinese rail equipment market.

The revenues of the combined group would exceed those of global competitors like Bombardier, Alstom and Siemens. CSR and CNR have announced ambitious targets to increase operating income more than threefold in the next five years, to around Rmb150bn ($22.7bn) and Rmb140bn respectively.

The move is supported by China’s railway ministry and the state-owned assets supervision and administration commission, Sasac, which holds the government’s majority stakes in the two companies, according to Chinese media reports and people familiar with the proposal.

Yet the idea faces opposition from the companies themselves and from other ministries, including the powerful central planning agency, which wants to maintain competition in the home rail equipment market. A spokesperson said CSR had no knowledge of any merger discussions and declined to comment further.

Both Sasac and the railway ministry are strong backers of the Chinese rail companies’ push into overseas markets and feel a merged company could compete more effectively for international tenders without fear of being undercut by its domestic rival.

China’s high-speed and conventional rail construction boom means the country will remain the world’s single largest rail market for at least the next 10 years.

Annual investment is expected to peak by around 2013, however, and roughly halve after that.
That would leave CNR and CSR with enormous spare capacity and a merger of the two would allow the companies to focus their energies on competing globally.

“I think such a merger is a good idea because neither of these companies owns core technology and there is no need for them to do research and development separately,” said Zhao Jian, a professor at Beijing Jiaotong (transport) university.

Combining the two state companies and their dozens of subsidiaries – some of which are publicly listed – would be a mammoth task made more complicated by various joint ventures and agreements they have with international competitors.

Many countries are contemplating building high-speed rail lines and both CNR and CSR are aggressively bidding for projects, offering highly competitive prices and a package of cheap financing from Chinese state banks as well as direct backing from Beijing.

Chinese-built high-speed rail projects in Burma, Thailand and Laos are expected to start construction this year and the Chinese companies are preparing to bid for as many as eight possible high-speed rail lines under consideration in the US.

While Beijing is very eager to promote Chinese high-speed rail construction abroad, CSR and CNR are just starting to look beyond their home market and overseas operating revenues currently only make up around 5 per cent of their total.

The Railway Ministry said this week that domestic rail investment this year is expected to top Rmb700bn, roughly the same as last year, with around 70 new inter-city projects scheduled to break ground.

China already has the world’s largest high-speed rail network, with a combined 8,358km by the end of 2010, but that total will reach 13,000km by next year and will top more than 16,000km by 2015, according to the Railway Ministry.

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