Sinolytics Primer

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

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Sinolytics GmbH / www.sinolytics.ch
Sinolytics – a European research-based consultancy entirely focused on China

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<thead>
<tr>
<th>Profile</th>
<th>Key expertise areas</th>
<th>Approach</th>
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<tr>
<td>• Founded in 2017, Sinolytics is a client-serving, research-based consultancy with offices in Berlin, Zurich and Beijing</td>
<td>Policy/regulatory analysis, monitoring &amp; forecasting (e.g. SCS, sustainability, cybersecurity, industrial policies)</td>
<td>Primary source and Chinese-language research</td>
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<td>• Uniquely blending In-depth research with management consulting approach to problem solving</td>
<td>China’s digital transformation with focus on Blockchain, digital currency, e-Commerce and Insur/FinTech</td>
<td>Problem-solving and developing tailored solutions</td>
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<td>• Operating at the nexus of business and policy and analyzing China’s political economy, Sinolytics advises companies from across business sectors and functional areas</td>
<td>Cooperation/partnerships (e.g. tech-transfer/partnerships, subnational/city-partnerships, trade associations)</td>
<td>Flexible delivery formats: strategies, reports, workshops</td>
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<td>• More than 40 clients, including some of the largest and most respected foreign companies operating in China</td>
<td>The Belt and Road Initiative – with focus on challenges and opportunities for foreign logistics, finance and EPC sectors</td>
<td>Depth in content, while strong in contextualization</td>
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<td>China’s Innovation and technology policies impacting corporate strategies and offering cooperation opportunities</td>
<td>Extensive expert network and research partners</td>
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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

- 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.

Logistics Performance Index*

*The WBG LPI ranks countries on six dimensions of trade (including customs, infrastructure and timeliness of shipments) based on a survey of logistics professionals.

Source: World Bank Group
BRI's “Maritime Road” and overland “economic belts” address these connectivity gaps

6+1 Economic Corridors

1. China-Mongolia-Russia Economic Corridor
2. New Eurasia Land Bridge Economic Corridor
3. China-Central Asia-West Asia Economic Corridor
4. China-Pakistan Economic Corridor
5. Bangladesh-China-India-Myanmar Economic Corridor
6. China-Indochina Peninsula Economic Corridor

Maritime Route
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

- **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

【两部门关于促进快递业与制造业深度融合发展的意见】

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.”

Li Xiaopeng, Minister of Transport

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

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

Global and integrated supply chains and logistics network: Global supply chains seen as key area of China’s future competitiveness
... building on existing multi-layered policy tool-box – implemented with four key pillars

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<th>Key policies</th>
<th>Policy objectives</th>
<th>4 key pillars</th>
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| **Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road** | • 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 see ports along BRI | National champions contribute to high growth rates of logistics industry and extend global networks. |
| **Medium- and long-term plan for logistics industry (2014-2020)** | • 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 | e-Commerce giants benefit from favorable policies to build out logistics hubs and railway connectivity. |
| **Cross-border e-Commerce pilot areas** | • 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 | Intensive and ambitious government guidelines set targets for the high-tech development of the logistics industry. |
| **Guideline for “Intelligent Shipping”** | • Meeting the increasing logistics demand between China and Europe because of the trading boost along BRI  
• Infrastructure construction: railway, logistics hubs | Comprehensive and effective commercial diplomacy is promoting the internationalization of Chinese logistics companies. |
| **China Railway Express development plan** | • Developing intelligent shipping as a new business model  
• Improving intelligent level of ports and navigation  
• 2025 plan: finish initial framework, regulation and standards system | |
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**

<table>
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<th>Business lines</th>
<th>Shipping &amp; port</th>
<th>Logistics</th>
<th>Shipping Finance</th>
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<tbody>
<tr>
<td>Business lines</td>
<td>Container shipping capacity 300 million TEU</td>
<td>Top 1 logistics provider in China</td>
<td>Top 3 global container leasing service</td>
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<tr>
<td>Chinese policies</td>
<td>Investments in 51 container ports worldwide</td>
<td>Business covering 200 ports globally</td>
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<td><strong>NDRC: Action plan of New western sea-land corridor</strong></td>
<td>Shipping liners connection along BRI</td>
<td>National champions are key players of BRI supply chains</td>
<td>Variety of financing modes</td>
</tr>
<tr>
<td><strong>MOT: Opinion of high-quality shipping industry development</strong></td>
<td>Financial support for port constructions</td>
<td>Intelligent shipping and sustainability</td>
<td>Creation of shipping finance products</td>
</tr>
</tbody>
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- 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

Logistics Infrastructure

Six e-hubs of smart logistics network
- Hangzhou, Hongkong, Kuala Lumpur, Dubai, Moscow and Liège
- Digital center + logistics center

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
### Technology

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<th>Technology</th>
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</table>
| Smart ports         | Chinese terminals are leveraging 5G technology to develop smart ports  
• 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 automated  
• 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  
• 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  
• 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  
• 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  
• 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**
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
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3. Sinolytics value proposition
Four key impacts in Europe from China’s international logistics ambitions...

1. China increases capacity and throughput in Med ports
2. Intermodal connectivity from South to North improves
3. China improves warehousing and distribution capacities
4. Improved rail connectivity offers new shipping routes

Chinese companies' investments and activities
- Port operations
- Terminal operations
- Warehouse operations
... all simultaneously creating cooperation opportunities and competition for European logistics

<table>
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<tr>
<th>Impact</th>
<th>Description</th>
<th>Exemplary firms impacted</th>
<th>Exemplary CN partners</th>
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<tbody>
<tr>
<td>Port operations</td>
<td>• Chinese port operators have acquired <strong>significant stakes in major European ports</strong> in Northern Europe as well as in the Mediterranean.</td>
<td>HHLA, Port of Antwerp, APM Terminals</td>
<td>COSCO SHIPING, China Merchants Group Ltd, CCC, Hutchison Ports</td>
</tr>
<tr>
<td></td>
<td>• Chinese shipping giants are <strong>re-directing their shipping lines</strong> through Chinese-controlled ports.</td>
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<td></td>
<td>• Chinese acquisitions strongly <strong>focused on Mediterranean</strong>, potentially challenging the dominant position of Northern European ports.</td>
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<tr>
<td>Intermodal connectivity</td>
<td>• Major <strong>intermodal hubs</strong> are built and operated by Chinese actors within Europe.</td>
<td>HUPAC, CONTARGO®, duisPort</td>
<td>COSCO SHIPING, China Merchants Group Ltd, PEARL, CRCC</td>
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<tr>
<td></td>
<td>• Chinese shipping carriers are increasingly <strong>integrating vertically</strong>, incorporating intermodal transport into their business.</td>
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<tr>
<td>E-Commerce</td>
<td>• E-commerce is major source for <strong>growing cross-border trade</strong> between EU and China.</td>
<td>Deutsche Post, DHL, FIEGE</td>
<td>Alibaba Group, ZTO Express, SF Express</td>
</tr>
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<td></td>
<td>• Chinese e-commerce firms increasing their European footprint and are moving into <strong>warehousing and last-mile delivery</strong>.</td>
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<tr>
<td>EU/Europe-China railfreight</td>
<td>• EU-China rail freight <strong>substantially increased</strong> over last few years.</td>
<td>DB Cargo, Rail Cargo Group</td>
<td>China Merchants Group Ltd, COSCO SHIPING, China Merchants Group Ltd</td>
</tr>
<tr>
<td></td>
<td>• As part of the BRI, Chinese companies are <strong>constructing and operating various railway lines</strong> in Eurasia, controlling a significant share of trade routes to the EU/Europe.</td>
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*Cooperation or competition? Companies need to assess specific nature of impact*
COSCO’s acquisition of Med ports is reshaping European maritime trade

Chinese port acquisitions in the Mediterranean are changing traditional shipping routes

With the acquisition of major ports, COSCO has build 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

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

*LSCI is based on 1) number of ships, 2) their container-carrying capacity, 3) maximum vessel size, 4) number of services, 5) number companies

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.
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.

**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**

- **duisPort**:
  - COSCO is building Europe’s largest inland container terminal in Duisburg
  - Will operate rail from Southern/Central Europe

- **BILK terminal**:
  - BILK is important node in South/North conn.
  - COSCO plans to develop terminal into European logistics hub

- **CSP Spain**: The Zaragoza Rail Terminal is located in Spain’s biggest logistics area
  - COSCO plans to significantly expand capacity

**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

**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.

**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.

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

Survey results: Countries from which Europeans have shopped online

<table>
<thead>
<tr>
<th>Country</th>
<th>2014</th>
<th>2019</th>
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<td>CN</td>
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AliExpress is top marketplace in 7 EU countries

**Growth of international parcels in EU27 (in million)**

- CAGR +27%

- 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

- 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.

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

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.

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

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

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Chinese e-commerce giants are building out their European logistics network from warehousing to last mile.

European USPs increasingly tailor their services to parcel deliveries from China.
Direct rail freight connectivity from China is opening up new trade routes

**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.

---

**Share of rail freight still comparatively low...**

**...but volumes are rapidly increasing**

**EU-China Rail Cargo Throughput (thousand TEU)**

- Rail
- Rail shifted from sea
- Rail shifted from air

**Modal split of EU-China Trade (million tonnes)**

- Rail: 101.7
- Air: 1.9
- Maritime: 1.0

---

**China is improving Eurasian rail connectivity along New Silk Road**

- 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.

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**EU-China Rail Cargo Throughput (thousand TEU)**

- **2011:** Rail: 50,000, Rail shifted from sea: 100,000, Rail shifted from air: 0, Total: 150,000
- **2013:** Rail: 100,000, Rail shifted from sea: 200,000, Rail shifted from air: 0, Total: 300,000
- **2015:** Rail: 150,000, Rail shifted from sea: 250,000, Rail shifted from air: 0, Total: 400,000
- **2017:** Rail: 200,000, Rail shifted from sea: 300,000, Rail shifted from air: 0, Total: 500,000
- **2016:** Rail: 600,000, Rail shifted from sea: 100,000, Rail shifted from air: 0, Total: 700,000
- **2027:** Rail: 700,000, Rail shifted from sea: 700,000, Rail shifted from air: 0, Total: 1,400,000

**CAGR**

- Rail: 106.42%
- Rail shifted from sea: 14.7%

**Modal split**

- Rail: 68.7%
- Rail shifted from sea: 18.3%
- Rail shifted from air: 13.0%

**EU-China Trade (million tonnes)**

- Rail: 1,017
- Air: 19
- Maritime: 1

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**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
2. Impact on key European logistics sectors
3. Sinolytics value proposition
### Sinolytics’ Service Portfolio for European logistics firms and concerned public sector actors

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Description</th>
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| **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 |
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 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 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 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.