

# *The Curtain Rises on Act Two of the “Siberian Land Bridge”*

## *(Abstract)*

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The Trans-Siberian Railway (TSR) route for transporting containers between East Asia and Russia, Europe and Central Asia, utilizing the TSR and marine transport routes, has recently been holding center stage in Japan. From the spring of 2007 onwards, special reports have proliferated, not only in specialist publications for logistics and in the economic press, but also in the press generally. Forming the backdrop is the ever-increasing transportation of components to local sites of production with the booming movement into the Russian market by Japanese enterprises.

In 2006 the volume of international container trade handled by VICS and VSC (loaded containers) was 197,952 TEU, and including empty containers was 284,295 TEU.

Import and export cargo has grown consistently since 2000. The figures for 2006 were: imports into Russia of 138,258 TEU, exports out of Russia of 32,159 TEU, and cargo to Central Asia of 20,882 TEU, which increased 12.1-fold, 5.2-fold, and 2.1-fold, respectively, on the figures for 1998. Factors in the increase in import and export cargo include: the strong trade with Russia; the expansion of direct investment into Russia with ROK companies forming the core; the improvement in block train services; and the congestion on alternative routes, such as via the Port of Saint Petersburg and the Finland cross-border route.

Meanwhile for transit freight the changes have been intense, and although sharply increasing from 1999 to 2003, it declined dramatically thereafter. The competition of alternative routes can be given as a contributing factor to this turn-about.

In January 2006 as a result of the sharp hike in transit fees, the TSR couldn't match the level for the cost of transport from Busan to Finland on the Deep Sea route, and the transport of household electrical appliances and the like to Finland from the ROK and China has for the most part shifted over to the Deep Sea route. As a result, the transit cargo volume for 2006 fell dramatically to 6,292 TEU (a decrease of 90.2% on the previous year). The proportion of

total cargo in loaded containers for which transit accounted shrank to a mere 3.2%. Consequently the cargo bound for Europe has vanished, and the former moniker of “Land Bridge” has fallen out of step with reality.

Taking a look at the movements in cargo for the first half of 2007, it can be seen that overall volume saw an increase of 20.6% on the previous year, and within that imports and exports increased by 22.8%, transit underwent a decrease of 47.5%, and the downward trend for transit has gone to a new level.

If we look at the country of origin and destination, for 2006 this was 63% for the ROK, 33% for China and 4% for Japan, with the ROK as ever in the lead and with Japan all but invisible. Cargo from the ROK for the first half of 2007 has shown a pronounced growth of 29.8% on the preceding year.

What are the factors behind the continuing rapid growth in TSR use for import and export cargo?

- 1) *The strong Russian economy*: The Russian economy is booming, and has brought a voracious demand for imports, such as consumer goods, household electrical appliances and cars.
- 2) *Direct investment*: Direct investment by ROK businesses is moving apace. The Hyundai Motor Company (in Taganrog), Kia Motors Corporation (in Izhevsk), the SsangYong Motor Company (in Naberezhnye Chelny) and LG Electronics (in Ruza), amongst others, have commenced local production. In addition, GM Daewoo is manufacturing locally in Uzbekistan. Most of these production plants use knock-down production, with the TSR being used for the delivery of mass-produced components from the ROK.
- 3) *Congestion on competing routes*: As the Port of Saint Petersburg, an alternative route for imports and exports, is lacking in facilities, it is unable to respond to the increasing demand for import and

**Block Trains in Regular Operation (July 2007)**

Destination	Origin	Trains per week	Days taken	Operator(s)	Major Consignor(s)
Taganrog	Vostochny	3	11	Russian Troika	Hyundai Motor Co. / “TagAZ”
Izhevsk	Vostochny / Nahkodka	7-8	9	Russian Troika F.E. Trans	Kia Motors Corp. / OJSC “IzhAvto”
Moscow	Vostochny	1	11-12	Russian Troika	not specified
Sarygash (for Uzbekistan)	Vostochny	2	14	TransContainer / Unico Logistics	GM Daewoo
Naberezhnye Chelny	Vostochny / Nahkodka	3	9-10	F.E. Trans	SsangYong Motor Co. / OJSC “ZMA”

export cargo. One hears that the route into Russia via Finland has long, snaking lines of trucks. A new port at Ust-Luga, in the environs of Saint Petersburg, is under construction, although its completion has not been scheduled.

4) *The reduction in Finland transit:* Of the ROK-manufactured household electrical appliances which entered Russia via Finland transit, most shifted to the Deep Sea route following the 2006 hike in transit fees, while the remaining portion was imported directly.

5) *The improvement in block train services:* The companies Russian Troika and TransContainer were established and the block train services improved.

The support for the expansion of the import and export cargo on the TSR is from the ROK and China, and Japan is all but invisible. The low level of cargo originating in or destined for Japan continues, and in 2006 was 7,637 TEU (a decrease of 2.6% on the previous year), and is set for a comparable level in 2007. Japan's share of the total TSR cargo was 27% in 1999, as against 17% in 2000, and has continued falling, down to 4% in 2006.

The advance into Russia by Japanese companies, however, is moving ahead at a frenzied pace. Even among Japanese companies the prizing of speed is continuing to gain ground. Moves are also underway for the provision of containers by Russian operators. The low-frequency of shipping services between Japan and Russia is being compensated for by services via Busan. The problems of negative perceptions, etc., could be overcome with repeated trial service-runs.

Reflecting these changes in the situation, a great expectation that Japanese cargo would return to the TSR surged up between the interested parties in both countries.

What the Russian side is hoping for is that the transport of components from Japanese car manufacturers to local production sites in Russia being planned by the likes of Toyota will act as a "priming charge". The successful model for this is the ROK's Hyundai Motor Company which commenced knock-down production in 2002 in Taganrog on the Black Sea coast. The Hyundai Motor Company produces 50,000 vehicles annually in its local production in Taganrog, but ships components from the ROK simultaneously on the TSR route and the Deep Sea route, and along with pitching the two routes into competition, is also helping it to offset its risks.

In a similar fashion to the Hyundai Motor Company, the Kia Motors Corporation has commenced local production in Izhevsk, situated in the Russian interior, and uses the TSR route alone for the transport of its components.

Russian Railways, which is on track with the transport of components to the Hyundai Motor Company, has as its next objective the Toyota Motor Corporation, which is planning local production in Saint Petersburg at the end of 2007.

Moreover, if Toyota utilizes the TSR, confidence in the route will grow and the Russian side has the great hope that use of the route by other Japanese companies will be boosted. In fact, the Nissan Motor Company and the Suzuki

Motor Corporation also have plans to start local production of passenger cars in Saint Petersburg in 2009.

Under the influence of the Russian side, the wheels of the Japanese transport industry too have begun to turn. On 26 July 2007, the major international distributor Kintetsu World Express inked a tie-up with the Russian Railways' subsidiary TransContainer as a Japanese container transport sales agency. Both companies will establish depots for containers owned by TransContainer in three Japanese ports (Yokohama, Nagoya and Kobe) and lease them to Japanese consignors. A multimodal transport service is planned, providing services to the major cities of western Russia via the linking of shipping services from Japan to Vostochny with block train services. Furthermore, Mitsui & Co. is also moving toward a similar tie-up with Russian Troika.

If one considers transport from Japan to Saint Petersburg, in terms of the number of days taken for transport the TSR route (approximately 25 days) is even shorter than the Deep Sea route (approximately 40 days). In addition, in recent tests the possibility of a further speeding up has been demonstrated. In April and May of 2007, GM, which is planning to set up shop in Saint Petersburg, at the initiative of an ROK forwarding company undertook the test transport from the ROK on the TSR route of containers loaded with GM Daewoo car components. The test transport is said to have taken 15 days to arrive in Saint Petersburg from Busan. This would be 20 days from Japan via Busan, and suggests that if there were a direct shipping service there is potential for shaving an additional number of days off that.

The framework for Japan-Russia distribution services has been put in place and the situation is now one of waiting for the cargo to come together. If Japanese businesses are to utilize the TSR route for transportation to western Russia, several medium- to long-term problems will remain.

1) *Price competitiveness:* If fees to Moscow and Saint Petersburg from Japan are compared, it is widely held that the fees for the TSR route are even now somewhat higher than those for the Deep Sea route. Moreover, Russian Railways has a notorious track-record of frequent hikes in fees in the past. In the future, if there are such repeated price rises, it will become difficult to attract Japanese clients.

2) *Technical problems:* There have been reports from the companies carrying out test transport runs of damage to cargo from vibration during TSR transport. There is a need to establish technology concerning vibration-dampening transport and packaging. There could be technical cooperation between Japan and Russia regarding this problem.

3) *Service for small and medium-sized consignors:* There are a number of problems with the Project Cargo formula developed with ROK automobile manufacturers in mind. Firstly, it is considered that the volume of car-makers' components transported decreases as the local supply of the components increases. Secondly, as single companies, small and medium-sized consignors have insufficient volume to make up their own

block trains and are left out in the cold. There is a requirement for the making up of block trains bringing together the cargo from small and medium-sized consignors and for devising a means for efficiently clearing customs. The expectation is high for Japanese forwarders and trading companies to take on that role.

4) *The frequency of shipping services between Japan and Russia:* The current frequency of two services per month is unacceptable to consignors. Kintetsu World Express is contemplating services via ROK ports, but it is hoped that in order to extract the fullest benefit out of the advantage of

speed the number of direct services from Japan would be two per week at the very least.

5) *The handling capacity of ports:* Recently murmurings can be heard about the lack of handling capacity at Vostochny, said to be Russia's most modern port. The site for the new terminal has already been arranged, but the concrete formulation of a development plan is hoped for. In a similarly fashion the modernization and expansion of the Port of Saint Petersburg—competing with the TSR route—are also at the point of being hastened.