

# Doing business in Asia

**OPINIONS** To launch our quarterly survey of the railway supply sector, we asked a panel of senior executives what steps are needed to improve the accessibility to Asian rail markets for international suppliers. Is it primarily a political issue, or do companies need to make more effort on their own behalf?

One of the key measures in the 2012 World Rail Market Study prepared by Roland Berger for the European railway suppliers association UNIFE is an assessment of the 'accessibility' of different markets. This is dependent both on the willingness of national governments to open up their rail sector to international suppliers and the efforts that companies make to win business, be it the supply of equipment, maintenance or services.

The opening of markets is a key element of the ongoing world trade talks and various free trade agreements that have been negotiated in recent years. But how far is the opening up of the rail sector down to inter-governmental negotiations, and are there other levers that the industry can pull?

For our first quarterly survey, we asked our panel of senior executives to select one of five main levers which they believed would most help to improve accessibility to the Asian railway markets. Interestingly, the opinions were almost equally divided. Just over half of the participants felt that it was down to the suppliers themselves to make the efforts needed to enter the markets, whereas 44% of respondents felt that governments and regulatory bodies had to play a more decisive role.

## Industry factors

The largest group felt that co-operating with local suppliers through joint ventures or similar partnerships represented the most promising way to gain access to new markets. Such arrangements have already been

## RAIL SUPPLY INDUSTRY WATCH



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successful in many cases, with both large systems integrators and smaller component manufacturers operating successful joint ventures in Asia. For example, Siemens teamed up with Tangshan Railway Vehicles in 2005 to develop Velaro high speed trains for China, and has continued to attract large orders. In 2010 US component manufacturer Wabtec Corp won an order to supply couplers for the Hangzhou Metro cars after partnering with Hangzhou Golden Bridge Railway Equipment Co. More recent-



ly, Ansaldo STS has licensed its Tram-Wave ground-level power supply technology to Chinese and Taiwanese partners, in order to enter the region's emerging light rail market.

Interestingly, only 4% of respondents felt that intensified sales efforts were the main route to market entry, and no-one voted for the greater customisation of products to meet local needs. Developing and selling modified products may be important as part of a broader strategy, but it cannot be the sole factor to improve market accessibility.

## Political levers

Among those respondents who felt that policy-making was decisive, the voting was almost evenly split between the two main options. Around 24% of all respondents felt

that agreements between regulatory bodies to standardise technical norms and tendering procedures was a key lever. Within this, it seems reasonable to assume that standardising tendering procedures to ensure fair competition for all suppliers can be achieved faster than harmonising complex technical standards. But this will still depend on being able to convince the procurement authorities that it is better to focus less on national interests and more on an inclusive and professional purchasing regime.

The remaining 20% felt that general free-trade agreements between the relevant governments would improve accessibility to the rail market. As UNIFE Director General Philippe Citroën points out, 'in some cases, suppliers cannot by themselves improve their market access due to non-transparent or discriminatory procurement procedures. Trade negotiations and contacts at a high political level can therefore give a significant impetus to improve market access.'

Currently, neither the European Union nor the NAFTA block have free trade agreements with Japan or China. These are the two largest economies in Asia, with rail supply markets valued at €5.8bn and €11.6bn a year respectively in 2012-14 according to the latest World Rail Market Study. Negotiations have recently been initiated between the EU and the USA, as well as between the EU and Japan. These have some momentum, but the discussions need to be accelerated and extended to include other Asian countries.

Of course, in practice there is no single lever that will miraculously open up every market. Our survey would suggest that a two-pronged strategy would be most promising. Companies should try to grow their business by co-operating with local firms whilst simultaneously lobbying for accelerated standardisation of norms and tendering procedures within the broader negotiation of free trade agreements. ☞

## Rail Supply Industry Watch

**OPINION:** Launched by Roland Berger Strategy Consultants in October 2013 with assistance from *Railway Gazette* and UNIFE, the Rail Supply Industry Watch is intended to collect the views in the railway supply sector about topics of current interest.

The quarterly survey is sent out by e-mail to a panel of senior executives, with the collated results published in *Railway Gazette International*.

To find out more about the survey and apply to join our panel, visit the RSIW website at: [www.railsupplyindustrywatch.com](http://www.railsupplyindustrywatch.com)