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[China Newsweek] CRRC 10 years" Exploring in Africa"

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南车十年“非洲探路”

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南车株机公司探路非洲市场，从陌生到熟悉，从不可能到可能，从第一次机会的折戟沉沙到签订数十亿美元订单，公司成长。

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南车十年“非洲探路” 《中国新闻周刊》记者/倪杰（发自湖南株洲）

<China newsweek>journalist/Minjie(Reported from Hunan Zhuzhou)

17<sup>th</sup> March 2014 is a remarkable date for China rail transportation industry which has full of ambitions to set a sail in overseas market.

At that date, CSR and CNR group (now is CRRC group) has signed the biggest sales contract of 495 electric locomotives and 232 diesel locomotives respectively with TRANSNET. The total value of contract is over 2.8 billion US dollars which is the largest export order in China high-ending rail transit equipment sector.

The deputy director Mr.Wang Pan in CSR ZELC overseas marketing center still remembered the very interesting moment of signing contract. According to the local law in South-Africa, the people who sign contract with South-African company should be the legal representative (i.e Mr. Wang Pan) of local subsidiary of CSR ZELC. But according to Chinese regulation, it should be the general manager and CEO of CSR ZELC Mr.Zhou Qinghe who sign the contract. A lawyer give a solution: Mr. Wang pan could write a power of attorney with legal force to authorize his boss Mr. Zhou Qinghe to sign contract. The story of “The employee authorized his boss to sign contract” is still a joke between colleagues.

This order is extremely significant to overseas market team in CSR ZELC. From the very beginning research online in 2004, it takes 10 years' efforts to achieve the final success. This miracle in national rail transit equipment field is a best gift for the whole team.

Exploring in South-Africa

Zhuzhou, with Xiangjiang River crossing the whole city, is located in center of Hunan. Zhuzhou is the cross point of Yuehan Line, Zhengzhan Line and Xiangqian Line that makes the city become railway hub since modern times.

Zhuzhou Electric Locomotive Corporation (ZELC) is a leading manufacturer of electric locomotives in China, with a long history of producing high-quality locomotives for the railway industry.

In 1936, Zhuzhou workshop of Yuehan railway was founded which is the predecessor of CSR ZELC. In 1978, Zhuzhou workshop has been confirmed as the first professional manufacture of electric locomotive in China by Ministry of Railway. So Zhuzhou is the cradle of China electric locomotive without any doubt.

Zhou Qinghe told <China newsweek>, since the year of 2000, China rolling stock industry is separated with former Ministry of Railway by following the trend of "Separation of main business and supplementary business". China railway rolling stock corporation was reformed as CSR and CNR group. Zhuzhou Electric Locomotive Corporation is the core subsidiary of CSR group. The contact with South-Africa began at that time. Some people from South-Africa come to investigate our technique and production ability of electric locomotives and diesel locomotives almost every year after 2000.

"We got 1-2 visit groups came occasionally but without obvious intention."The deputy manager who is in charge of overseas market business of ZELC Mr. Zhang Minyu told <China Newsweek>.The overseas sales and marketing center was build in 2004. Mr. Wangpan is responsible for African market since the global market division.

After the diplomatic establishment in 1998, China and South-Africa signed <Pretoria Proclamation> to confirm partnership between 2 countries. The diplomatic relation is upgrading after that.

The first thing Mr.Wangpan was doing is research online and output a professional report after take over the African market. He found that South-Africa already published an ambitious rail renaissance plan around 2000.

South-Africa built the well-developed railway network early in colonization period. So the locomotive market potential is really huge. However, the lack of necessary investment and maintenance leads to the amortization of equipment and railway. "They always have needs of upgrading but without action. We think this is a great opportunity so we are following tightly since 2004." Explained by Wang Pan. He contacted successfully with locomotive purchasing responsible in 2005.

In 2006, the commercial team in CSR ZELC stepped on the land of South Africa first time after receiving invitation.

After one week negotiation, South-Africa considered that they can give 30 units locomotives as trial order to ZELC for the research and quotation but need to be finished within one week. "According to the rules, big project should do global bidding but they don't want waste time to follow the procedure. As we already contacted for long time, they were willing to give order to us in bid negotiation."Wang Pan told us. The condition was that we need provide products with highly competitive price and shortest delivery time. This is the only way to persuade director board and to obtain bigger order in the future. "Actually they are lacking confidence to Chinese products."

South Africa began to run the railway since 19<sup>th</sup> Century and it is one of the few countries who owns 10 thousand tons traction locomotive in the global world. They are deeply proud of their own rail system technology. "In negotiation, they are always doubt how we can meet their requirement."Wang Pan explained. Actually they want take the 30 locomotives order as a test, if failed, Chinese products is hardly re-enter in South-African market.

However, after the submitting of all Memo, overall program schedule and project progress plan to them, there is no result for the first order. We realized later that the opposite voice come from director board of TRANSNET. "Japanese company was so strong at that time in South-Africa, they provide over 100 locomotives in 2 projects. So they were lobbying in TRANSNET board of director."

The first chance was gone in flash.

Final success of first order.

The new chance appeared again until 2011. TRANSNET sent a bidding of 95 electric locomotives to the whole world. After 4 years waiting, Wang Pan and CSR ZELC commercial team entered in South-Africa again. "We didn't completely give up while waiting. Because we found lots of vehicles were waiting for maintain when we visited there. The market is always exist so we need follow it

without stop."

Compared to last time, there is some change in the macro environment. In 2010, president Zuma visited China to communicate deeply the economical cooperation. South-Africa has been invited to join BRIC countries. The changes were also shown in the negotiation: South-Africa would like to give more trust to Chinese new-emerging enterprises and welcome Chinese companies to join the bidding.

"When we got to know the local suppliers, we found there are both private company and state-owned enterprise which is the subsidiary department belong to TRANSNET." Wang Pan claimed. Maybe one strategy worked at that moment, "We believed that they will prefer subsidiaries if they have the same productivity." Before that, almost all the international order is conducted in cooperation with private company. No one realized to work with this business department. "So we were thinking about the cooperation can help us to win the bid."

The deputy general manager also told <China Newsweek>, CSR ZELC is confident to the technology, price and delivery time. Yearly production capacity is over 1000 locomotives. So we can finish 90 units only in several months which can totally satisfy their needs. A local locomotive project company, with South-African shareholder, was planned to establish after carefully selection of local suppliers and calculation of localization cost. At the same time, the preparation of technical document and commercial part was going smoothly.

The whole process of bidding evaluation lasted for half a year, TRANSNET can't show their trust completely for China manufacturing ability. "We mentioned that we can completely respond to their technical points. They always asked how you meet. What's the proof? How is your testing equipment? Endless questions concerning our documents." Mr. Wangpan said with bitter smile. Some points were just in conception phase, "But we need answer all uncertainties."

There were 7 enterprises joined the bidding, including Siemens, Alstom, Bombardier, CSR, CNR and Toshiba etc. CSR ZELC (now is CRRCC ZELC) ran into last circle and would compete with Bombardier from Canada.

In September 2012, CSR ZELC has been told to wait for 2 weeks after all procedures. If we could get the news, we had the possibility to cooperate in further. "After 2 weeks, we didn't get any news. They said they still in analyzing when we called. The project seems blocked." Wang Pan said. And we suddenly received a letter from TRANSNET at the end of September by saying that the CEO wanted to come to Zhuzhou.

The enterprise begin to prepare seriously and make a detailed schedule for their visit. The pioneer is a technique team with 5 people. "I remembered clearly it was a Friday, after seeing the schedule, their technical director asked us seriously during the lunch, and 'Do you misunderstand the goal of our visit? We are here to work and to identify the risk. If you can't meet our technical requirement, we will report to the board and can't give you the project.'" Mr. Wangpan told the story.

2 days later, the CEO of TRANSNET leaded the commercial came to Zhuzhou and visited for half day. After listening the report from pioneer team, the CEO said, "Welcome to sign contract next week in South-Africa, we are fully believe in you after our evaluation."

The surprise comes all at once for CSR ZELC, "We were anxious to wait for one month without any news, but now we can sign contract just after half day visit."

This professional visit played an unparalleled role. The chief purchasing director in TRANSNET told them, "After comparison of other enterprises, you are the best; we underestimated your ability before." Until now, when somebody in group distrust China manufacturing ability, the visited group explained to them, "You never been to China, when you go to see, you will know they are wholly capable in producing."

The first order was finally settled. CSR ZELC signed contract of 95 units electric locomotives in conception, manufacturing, testing and supplying. But the challenge begins just after signing. The delivery time is 16 months for the first train. But the international routine is 20-24 months. In terms of technique, we should meet the needs of 25 kV AC and 3 kV DC double power system and using seamless

2-1 months. In terms of technique, we should meet the needs of 25 kV AC and 25 kV DC double power system and using seamless switching interval in the supply network. In addition, they provide some customization according to their own character in railway system.

Thanks to the leading of Mr. Liu Youmei who is the most famous expert of electric locomotive in China and the academican of China academy of engineering, CSR ZELC conquered series of technical difficulties. The first vehicle was rolling-out in less than 10 months that make the record of shortest delivery time in the history of China railway equipment exportation.

#### Local production

The success of first locomotive doesn't mean a bright future .The bigger challenger is waiting. In line with mutual agreement, 85 locomotives should be produced in the subsidiary factory of TRANSNET in Koedoespoort.

Lan Xiong, general manager of CSR ZELC South-Africa project department, said with profound feeling, "The hardness and tiredness in one years' localization work can equal to the total of 20 year's work in China."

At the beginning, lack of experience and communication and incompatibility of the management system lead to low manufacturing ability with only 2 trains monthly. That indicated the maximum yearly capacity is around 20 locomotives.

With time flying, the feeling turned from delighted to confused, disappointed, panic and almost desperate for mutual parties. At the beginning of November in 2014, the deadline is 3 months later. We need finish 20-22 units per month in the remaining time if we want fulfill the contract on time.

The local partner is not only the sub-contractor of production but also the subsidiary department of employer. In their opinion, it was impossible to respect the deadline so they proposed to modify the delivery time several time. They even promised to negotiate with employer by themselves. However, Lan Xiong explained to <China Newsweek>, as the first shot in South-African market, CSR ZELC can't bear the loss of contract infringement. Therefore, CSR ZELC refused politely the delivery time modification proposed by local partner.

We choose persistence while facing the unprecedented challenge. The CEO Zhou Qinghe told <China Newsweek>. The enterprise has sent more than 100 people who take the position of technique, logistic, project management, process and production at one time to South-Africa. Moreover, when the local supplier can't accommodate the spare parts, CSR ZELC shipped the high-quality parts by air from China without calculating the cost.

But, when vast of spare parts stacked in the airport, the counterparty went into totally mess due to lack of modern logistic experience. Thanks to the support from CSR ZELC, 2, 5, 10, 20units, the productivity boomed quickly.

" The 'GO OUT'and settle down of Chinese enterprises go out in target market is complicate. 'Multi-cultural communication' and 'Multi-cultural management' are compulsory course for us."Zhang Minyu claimed, as technical support, you need understand the core of problem like a "professor" and more important is to teach your "student" to solve the puzzle together.

#### Rule of game in other market

Compared to other overseas market, the specialty of South-Africa project is the local economical and social factors except price. For example, the BEE, localization requirement and local supplier development (SD) should be taken into consideration. Mr. Wangpan explained, in order to improve the production and maintenance ability of national railway equipment in South-Africa, the ministry of industry and trade ask for strict localization requirement for international purchasing project, for some is highly as 60%. It is a way to drive the relative industrial chain to grow fast as well.

Some staff in CSR ZELC holds different opinions; they can't understand why there are so many additional conditions only in South-African market? With the advance of project, we need establish the company with black people as shareholder. In addition, knowing of local cost and choosing cooperative partner makes each production chain more complicate than made in China.

Yet, with the deep exploring and understanding for South-Africa market, Mr.Wangpan think that we need make all our efforts to meet the necessary demands. "This is the rule of game we need obey. Making the project successful abroad is not enough, the division and adjustment of industrial chain in China need to be emphasized as well."

In the opinion of Zhang Minyu, there is another benefit to choose subsidiary department of TRANSNET to cooperate. "It is not only for winning the bid but also to reinforce awareness. We need become interest community to propel the upgrading and reforming of local railway equipment. Let's look at future together."

The new project is coming fast after the first cooperation. In 2013, the government of South-Africa published bigger project bidding to global world. There are 599 electric locomotives and 465 diesel locomotives, total in 1064 units.

The entire member in South-African marketing team of CSR ZELC could still remember the exciting and unforgettable negotiation.

At the eve of Chinese new year in 2014, the team received the call to South-Africa for the last negotiation. On the third day of Chinese new year, the team flew to Johannesburg and then found there were 4 companies in the last circle. CSR group competed with Bombardier for electric locomotives. On the other side, CNR group fight with GE for diesel locomotives.

"There was really a rough time for the contract negotiation lasted one month. The intensive discussion was conducted in contract clauses, price, sub-contracting and the share of contract. Each conference challenged the limitation of experience and intelligent for each party."The deputy manager Zhang Minyu recalled, negotiation began at 8AM, 4 enterprises took turns to come in; At 3PM, the new round began. "If you failed, the bad thing was losing share of contract, and the worst was going home directly."

In the last battle of contract share, CSR ZELC met the close combat with Bombardier once again. Early in 2012 for the 95 locomotives, Bombardier failed at the last fight with CSR ZELC. Bombardier determined to win after series of failures. Mr. Wangpan told <China Newsweek>, the CEO of Bombardier group was flying to South Africa so as to meet CEO of TRANSNET. Finally, they got 40% of contract share.

On 17<sup>th</sup> March, 2014, the signing ceremony holds in South-Africa. CSR group signed the exportation of 459electric locomotives, valued in 2.1 billion US dollars. And CNR group obtained 232 diesel locomotives. They created the biggest whole vehicle exportation order in high-ending railway equipment sector

"At 4<sup>th</sup> December, 2014, we signed Memorandum of rail transportation equipment cooperative agreement with the CEO of TRANSNET Mr.Brian Molefe under the witness of president of China Mr.Xi Jinping and the president of South-Africa Mr. Zuma." Zhou Qinghe told <China Newsweek>, CRC ZELC will build joint venture enterprise with TRANSNET in South-Africa aims to manufacture, accommodate and maintain the railway spare part for South-Africa and other African regions.

Looking back 10 years exploring in Africa, the general manager Zhou Qinghe concluded, for a market, we went through unfamiliar period then we can grow up; for a project, we went through impossible mission to possible chance; for the market game rules, we went through strangeness to involvement, "From business cooperation, cultural integration and enjoy the benefits together. The final goal is becoming 'community shared destiny'".