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## China Business

May 1, 2007

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### Railway transforms Tibetan trade

By Daniel Allen

BEIJING - Just how much difference can 1,100 kilometers of train track make? For better or worse, the vaunted Qinghai-Tibet Railway, opened just 10 months ago, is already having a major impact on the Tibetan economy. Government sources report that Tibet's trade turnover jumped more than 18% to US\$140 million in the first 11 months of 2006, resulting in a threefold increase in the region's trade surplus over 2005.

While the figures may seem small, they signify the very beginning

of a long and carefully considered development process. Newly prospected mineral deposits have turned Xizang, as Tibet is called in Mandarin, into a truly expansive western treasure house, ready to bankroll Chinese industry's continued breakneck development. According to the Xinhua news service, production output could surpass 10 billion yuan (\$1.25 billion) and account for one-third of the region's gross domestic product (GDP) within five to 10 years.

For decades, social and economic progress in Tibet has been hampered by its poorly developed transport infrastructure - the result of sluggish investment and challenges posed by the region's remoteness and unaccommodating geography. Although the Chinese government likes to tout the benefits that the new railway will bring to the Tibetan people, the railway has overt economic objectives - to stimulate trade between Tibet and the rest of China, and to allow more tourists to experience life on the

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"rooftop of the world".

The Qinghai-Tibet Railway is just one piece of an infrastructure jigsaw slowly but surely being put together by the Chinese government. Beijing's "western development plan", designed to stimulate inter-regional and cross-border trade, is resulting in an ever wider network of roads and rail lines across Tibet.

Last July, an ancient trade route across the 4,300-meter-high Nathu La pass leading to the Indian state of Sikkim, closed since the 1962 Sino-Indian border war, was dramatically reopened for commercial activity. This year construction work will begin on 21 highway projects and nine other major roads in Tibet, while the highway to the neighboring Himalayan country of Nepal will simultaneously be upgraded. And, according to Xinhua, work on a three-year rail project connecting Lhasa with Shigatse, Tibet's second city near the Nepalese border, will begin next year.

In 2006 Tibet received more than 2.6 million tourists, up 44% on 2005, with tourist revenue surging 45% to 2.8 billion yuan (\$350 million). The Chinese government is projecting that this figure will exceed 5 billion yuan (\$700 million) per year by 2010, with the number of annual visitors rising to 10 million by 2020. In anticipation of rising tourist numbers, the daily entry quota into Lhasa's Potala Palace, former chief residence of the Dalai Lama and now a state museum, has already been raised from 1,500 to 2,300.

Most of the passengers now arriving at Lhasa railway station, including workers, business people and officials, are ethnic Chinese. Many of Lhasa's taxi drivers, most of whom are Han, see a profitable future ahead. "Everything is changing here very quickly, mostly due to the new train. This is only the beginning," said Wang, 29, who came to Lhasa in October with his family from Hebei province.

After investing in a Lhasa brewery three years ago, Hong Kong businessman Wallace Yu saw beer sales rise steadily. When work began on the railway back in 2001, Yu decided to embark on an ambitious new project - selling bottled spring water sourced at more than 5,000 meters. The key to making the project work is that the site is now just 23km from a train station.

Now another partner in the brewery, Denmark's Carlsberg Group, is exploring opportunities to make the water available outside Tibet. By making use of the railway, bottles are soon set to hit

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Beijing shelves, and there are plans to begin exporting Lhasa's very own Ice Beer to other Asian countries this year.

Some native Tibetans are also benefiting from the railway. Jeep driver Pasang, who regularly ferries tourists overland from Lhasa to Everest Base Camp, is happy to see the numbers of tourists increasing. "Before, I never used to work five days a week, especially in the winter season. Now I'm really busy - I take tourists from other places in China and from all over the world."

Tibetan rug seller Dorjay has also been doing a brisker trade since the train came to town. "I'm now selling twice as many rugs and souvenirs as last year," he said. "I've also been contacted by various companies in Beijing who want to stock my products. The railway has really helped my business grow."

The growing influx of tourist dollars is just one part of Tibet's changing economic picture. The new railway has also lit a fire under the region's mining sector, as individuals and national and overseas corporations look to participate in an increasingly frenetic Tibetan-style gold rush.

Until last year, few of Tibet's mineral deposits had been exploited. Fewer than 1% of discovered mines had been prospected, only

**Continued 1 2**

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10% of mining companies had officially approved resource assessments, and only 15% of mines in commercial operation had completed full surveys. However, the lower cost of train travel has now turned the quiet trickle of prospectors and miners arriving in Tibet into a full-scale stampede.

The new overland route between Lhasa and Golmud, Qinghai province, has slashed mass transport costs by more than a third. This has made the export of Tibetan raw materials, once effected

by truck over high mountain roads, potentially affordable. "The railway has made transport of large quantities of metallic ores and other mineral products out of the region an economic reality," said a mining lawyer who asked to remain anonymous. "Now they can actually access these places and remove whatever's extracted."

The China Tibet Information website reported recently that over the past eight years more than 1,000 researchers have been scouring the Qinghai-Tibet Plateau, looking for mineral deposits to feed China's burgeoning economy. To date, 16 major new deposits of copper, iron, lead, zinc and other minerals worth an estimated \$128 billion have apparently been located in only 50% of Tibetan territory.

If confirmed, the new reserves make Tibet one of the richest regions in China. This could drastically decrease the country's

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reliance on imports of copper and iron, affecting international commodity markets across the globe. Tibet is now estimated to contain as much as 40 million tons of copper - one-third of China's total reserve - 40 million tons of lead and zinc, and more than a billion tons of high-grade iron.

"Just going by the reports I've seen and accepting them at face value, the size of these finds is enormous," Alan Heap, Citigroup's managing director for global commodity analysis, commented recently. "For copper, zinc and lead these reserves would double the size of Chinese deposits."

For the Chinese government, the mineral finds come at a hugely critical time. Over the past several years legions of Chinese businesses have been engaged in a global mission to acquire the raw materials needed to feed an increasingly voracious Chinese economy. "Lack of resources has caused a bottleneck," admitted Meng Xianlai, director of the China Geological Survey.

China is currently the world's largest importer of iron ore - 326 million tons last year - much of which ends up in the 24-hour steel mills that drive the country's construction and auto industries. Partly as a result of China's insatiable demand, prices of high-grade iron ore have more than tripled in the past two years, driving up development costs worldwide.

Among the Tibetan discoveries is China's first sizable iron deposit, a seam called Nyixung. It is estimated to contain as much as 500 million tons, which would be enough to put 20% of Chinese iron importers out of business this year alone. Estimated reserves of 760 million tons of high-grade iron ore have also been found in the Kunlun Mountains on the western Qinghai-Tibet Plateau and in southern Xinjiang Uygur Autonomous Region.

Commenting on the new reserves, China Geological Survey's vice director, Zhang Hongtao, said, "They may relieve the country's three-decade-long dependency on iron imports. Once Tibetan mines are developed, they will greatly relieve the strain on China's existing resources."

Newly discovered Tibetan copper reserves are equally important. A 400km seam has been mapped along the environmentally sensitive Yarlung Tsangpo (Brahmaputra) Gorge. According to Xinhua, one mine along this seam, the Yulong mine, is estimated to hold as much as 18 million tons, and could soon become the largest copper mine in China. Easier access to Yulong and other

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mines along the Yarlung Tsangpo seam will be provided by the proposed extension of the railway from Lhasa to Shigatse.

In all, three new Tibetan finds have increased China's total copper reserves by a third, according to the international mining industry website Mineweb. Once production comes online they will decrease imports by the same amount. China, which until now has imported much of its copper from Chile, is estimated to hold 5.6% of the world's copper, and is the seventh-largest producer.

Metals are not the only natural resources that Tibet has locked away beneath the ground. According to Zhang Hongtao, there may be "super-large" crude-oil and gas reserves in Tibet's far-western Qiangtang Basin, as well as large oil-shale deposits in areas west of the existing train line. China has invited multinational oil giants such as BP and Shell to explore for oil and gas in Tibet after realizing that its own companies lacked the experience and expertise required to drill in areas renowned for their challenging geology.

***Daniel Allen** is a freelance writer and photographer from London who has lived in China for the past three years. This article was written after his recent trip to Tibet.*

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