Research for TRAN Committee: The new Silk Route - opportunities and challenges for EU transport

This briefing summarises the conclusions of a study on 'The new Silk Route - opportunities and challenges for EU transport' prepared by an international team of researchers for the Committee on Transport and Tourism of the European Parliament. This study analyses in detail the Chinese Silk Route Initiative and investigates its possible impacts and prospects for the EU transport system. The emphasis in the research is also put on exploring the European transport system's readiness for the initiative and identification of potential bottlenecks and missing links. Furthermore, the study evaluates the need for implementation of additional measures at EU level in order to make the most of the Initiative and also to ensure fair competition in the transport, logistic and construction sectors in the context of expanding activity by Chinese operators. A comprehensive list presenting the involvement of all Member States in the Initiative constitutes an integral part of the study.

In late 2013, Chinese President Xi Jinping announced his country's ambitious plan to revive ancient trade routes that connected China to Europe through South-East Asia, Central Asia and the Middle East. The modern initiative, often referred to as “One Belt, One Road”, or “Belt and Road Initiative” (BRI) aims not only at construction of land-based transport connections between Asia and Europe but also at creation of an economic belt for fostered Eurasian cooperation. Moreover, it foresees the development of a 21st century maritime routes reaching from China to countries on other continents, which have the potential of increasing trade volumes with China.

No official or generally accepted definition of the Initiative exists. Its geographic scope includes 65 countries which jointly account for some 60% of global Gross Domestic Product (GDP) and 30% of the world’s population. Nevertheless, it is observed that the BRI:

- involves a significant amount of communication and branding, with multiple projects labelled as BRI projects simply because they fall within its geographical scope;
- is not subject to a clearly-defined development plan, programme or budget, and that there is no clear list of projects that it intends to include; and
- has no clear geographic or economic boundaries – the Initiative appears to have evolved in response to individual countries’ engagement with China rather than in line with an overarching strategy.

Objectives of the Belt and Road Initiative

China's stated objectives for the BRI refer to a broad intention to foster international understanding and cooperation focused on five areas: policy coordination, capacity building, liberalisation and facilitation of trade and investment, financial cooperation and people-to-people exchange.

The review of academic discussion about China’s underlying objectives for the BRI conducted in the course of this research suggests that they are likely to include the following:

- supporting Chinese exports of products and equipment, as well as its engineering and construction capabilities and technologies;
- controlling logistics chains to support Chinese trade with Europe;
• encouraging economic convergence and more balanced development across China;
• providing a mechanism for increasing the use of the Renminbi (RMB), China’s national currency, as an means of international payment; and
• creating alternative overland energy routes to supply oil and gas from Central Asia, Southeast Asia, and Pakistan.

**Key Findings**

1. **Chinese engagement in the BRI, specific initiatives and projects**

China’s financial engagement in support of the BRI is mainly through loans arranged through national financial institutions and investment in foreign businesses. The study has identified more than 80 transport-related projects benefitting from Chinese financial engagement covering air, road, rail and maritime investments in a large number of countries. It is worth noting that:

- investments in the EU mainly concern transport nodes and they take the form of equity / acquisition of shares in ports, railways and airports;
- there is a concentration of investments at the borders of the EU, in particular in Balkan and Central Eastern European countries; and
- port investments are spread along the whole maritime trade route connecting Asia to Europe.

2. **Cooperation between China and Europe**

China’s engagement with the EU on the BRI has been primarily through bilateral discussions with individual Member States rather than through EU institutions. In particular, since 2014, Member States, and a number of other non-EU countries (mainly in Central and Eastern Europe), have signed Memoranda of Understanding (MoUs) with China within the framework of the BRI. In addition, a specific framework for cooperation between China and Central and Eastern European countries (the “16+1 Format”) has been implemented as a means to foster the development of the BRI in these regions of Europe.

A coordinated and pan-European approach is only slowly emerging. Key areas of EU-China cooperation concern: reciprocity and the creation of a level-playing field in trade and investment; equal market access; promotion of jointly agreed international standards; and coordination of infrastructure investments and transport services. The EU-China “Connectivity Platform” is intended to be a forum to coordinate the infrastructure policies of the EU and China. This “Connectivity Platform”, as indicated in the study, should be strengthened in a number ways, as discussed below.

3. **The effect of the BRI on transport**

Predicting the effect of the BRI on the transport network is particularly challenging as there is no clear definition or programme for the BRI. In addition, it is not possible to distinguish trade specifically generated by the BRI from the wider trade between the Far East and Europe. Investments attributed to the BRI are only a small part of the overall investment which will anyway be made by the owners and managers of air, sea, rail and road infrastructure across Eurasia.

For maritime freight, it is estimated that the total westbound and eastbound trade flows between Far East and the EU were just over 16 million TEUs\(^1\) in 2016. Based on the forecasts presented in the study, the total two-way freight traffic would be around 40 million TEUs by 2040. For air freight, the total two-way volume flown between Europe and the Far East was 3.3 million tonnes in 2016 and it might grow to 5 million tonnes by 2040.

The study also found that as a result of improved services attributed to the BRI, around 2.5 million TEUs could transfer from maritime and 0.5 million TEUs from air transport to rail by 2040. This is equivalent to 50 to 60 additional daily trains between Europe and the Far East, or 2 to 3 trains per hour, in each direction. Rail services can be expected to target higher value and more time-sensitive goods than current maritime transport.

4. **The opportunities and challenges of the BRI for the European Union**

The research has identified the following opportunities as a result of the BRI:

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\(^1\) TEU is the industry term for measuring volumes of container transport – one TEU represents the volume of goods carried by one twenty-foot container.
• Chinese parties are willing to take construction risk and develop construction projects;
• Commercially viable rail services between China and the EU can be beneficial to European operators, shippers and industry;
• The BRI can be a platform to streamline customs arrangements;
• EU businesses may be involved in transport infrastructure projects in countries along the BRI, in particular in Central Asia;
• The BRI may be beneficial to the environment, reducing CO₂ emissions as a result of the projected mode shift to rail freight between the Far East and Europe.

The study also points to the following challenges, which might require the EU’s policy response to the BRI:
• Infrastructure projects may be implemented because Chinese funding is available, with little focus on the demand for, or sustainability of, the services that they are intended to support;
• The lack of a clear BRI investment plan may generate investment projects which compete or duplicate others, either inside or outside the EU;
• Chinese dominance in rail transport, or control of the entire logistics chain, may significantly increase its market power in respect of EU trade;
• Construction or operational EU standards in non-EU countries could be undermined by the promotion of different and sometimes lower Chinese standards;
• Improved accessibility for trade between China and the EU may alter the relative competitive position of individual EU Member States.

5. The readiness of the EU transport system for the BRI

Assessment of the routes most likely to be used in the future for the shift of container traffic to rail shows that the most likely route is the one north of the Alps, towards EU Member States bordering the North Sea and the Baltic Sea. This route is expected to primarily carry by rail containers which previously had been shipped to North Sea ports. These containers would mainly travel along the corridor from Moscow (Russia) through Brest (Belarus) and Warsaw (Poland) to Berlin (Germany), including part of the TEN-T North Sea – Baltic Core Network Corridor.

The review of the European Commission’s North Sea – Baltic Core Network Corridor Study found that that rail infrastructure capacity in 2030 should be capable of meeting the current and forecasted demand to that date. However, the Study appears not to include the volume of BRI-related traffic which may emerge by 2040. While bottlenecks may still emerge in the EU’s transport network, the study notes that any specific changes to the TEN-T programme were not justified at present. Such changes would be premature and might be inadequate or redundant, depending on the future evolution of the BRI.

Recommendations

Based on the findings of this research, the following recommendations are put forward:

1. The EU should engage in dialogue and cooperation with China, seek greater clarity on the BRI’s future plans, and encourage the development of studies concerning the connection of specific TEN-T and BRI corridors in the framework of the “Connectivity Platform” (starting from the North Sea – Baltic Core Network Corridor of the TEN-T and the New Eurasian Land Bridge Corridor of the BRI).

2. At the moment, TEN-T does not require to be modified due to the BRI, however it is proposed that the TEN-T corridor studies are reviewed and developed periodically as the work of the “Connectivity Platform” progresses and the BRI is defined more clearly. This would require TEN-T policy to become more outward-looking.

3. To ensure that the EU remains a global hub for standardisation, EU institutions should foster the establishment of a modern standardisation system. It is believed that this will be particularly important in promoting European Railway Traffic Management System (ERTMS) technology, one of the largest beneficiaries of TEN-T funding in the 2007-2013 and 2014-2020 multi-annual programmes.
4. EU institutions should continue to engage with the Chinese Government to agree as soon as possible specific contents of an EU and China Investment Agreement.

5. The European Parliament and the European Council should support the proposal of the European Commission to establish a framework for the Member States to screen Foreign Direct Investments in the European Union (EC 2017/0224 (COD)). This would ensure the EU’s ongoing openness to Foreign Direct Investments while preventing the capture of key European intellectual property by competitors.

6. The European Parliament and the European Council should also support the development of a legislative instrument, based on European Commission’s COM (2016) 34, to guarantee the reciprocity of access to public markets in the EU and China by European and Chinese businesses equally.

7. Finally, the Chinese Government should be encouraged by its EU partners to become a participant in the OECD Arrangement on Guidelines for Officially Supported Export Credits. In particular, it is recommended that, in monitoring progress towards a Comprehensive Agreement on Investment, the European Parliament seeks to ensure that China’s participation in the OECD framework is a key objective of the EU’s negotiating strategy.