

*Competition and Complementarity in Overland
and Maritime "One Belt One Road" Variants:
Some Key Issues and Considerations"*

by

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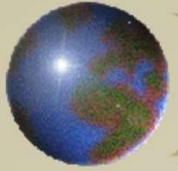
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Group of Experts on
Euro-Asian Transport Links



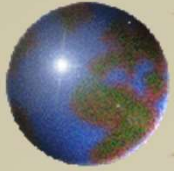
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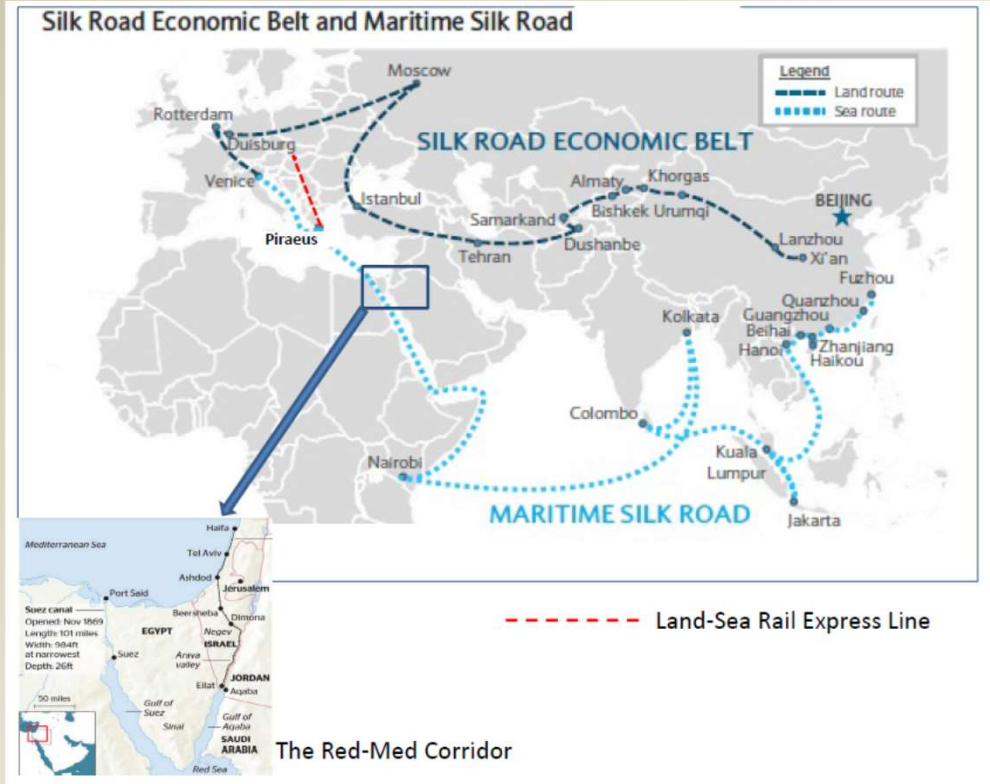


Aim of the Presentation

- Present the characteristics and structure of the “One Belt, One Road” Chinese initiative.
- Place emphasis on the various attributes directing this initiative and analyze strategies that may be adopted by the Chinese leadership in relation to other initiatives.
- Provide special reference to the component of the initiative for the Southeast Europe and the Mediterranean Sea and underlines some of the characteristics of the Maritime Silk Road (MSR) as compared to the Overland Silk Road (OSR).



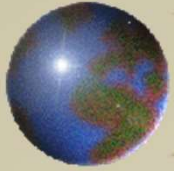
Strategic Context



Chinese Leadership uses the term “One Belt, One Road” to capture the dual connection strategy and initiative.

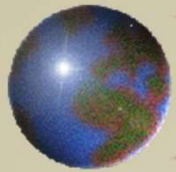
The dual Silk Road Economic Belt policy initiative has a multi discipline approach spanning from transport to utilities and telecommunications.

There are 2 aspects of the policy regarding transport connectivity; the Overland Silk Road (OSR) spanning the Eurasian Continent and the so called 21st Century Maritime Silk Road (MSR).

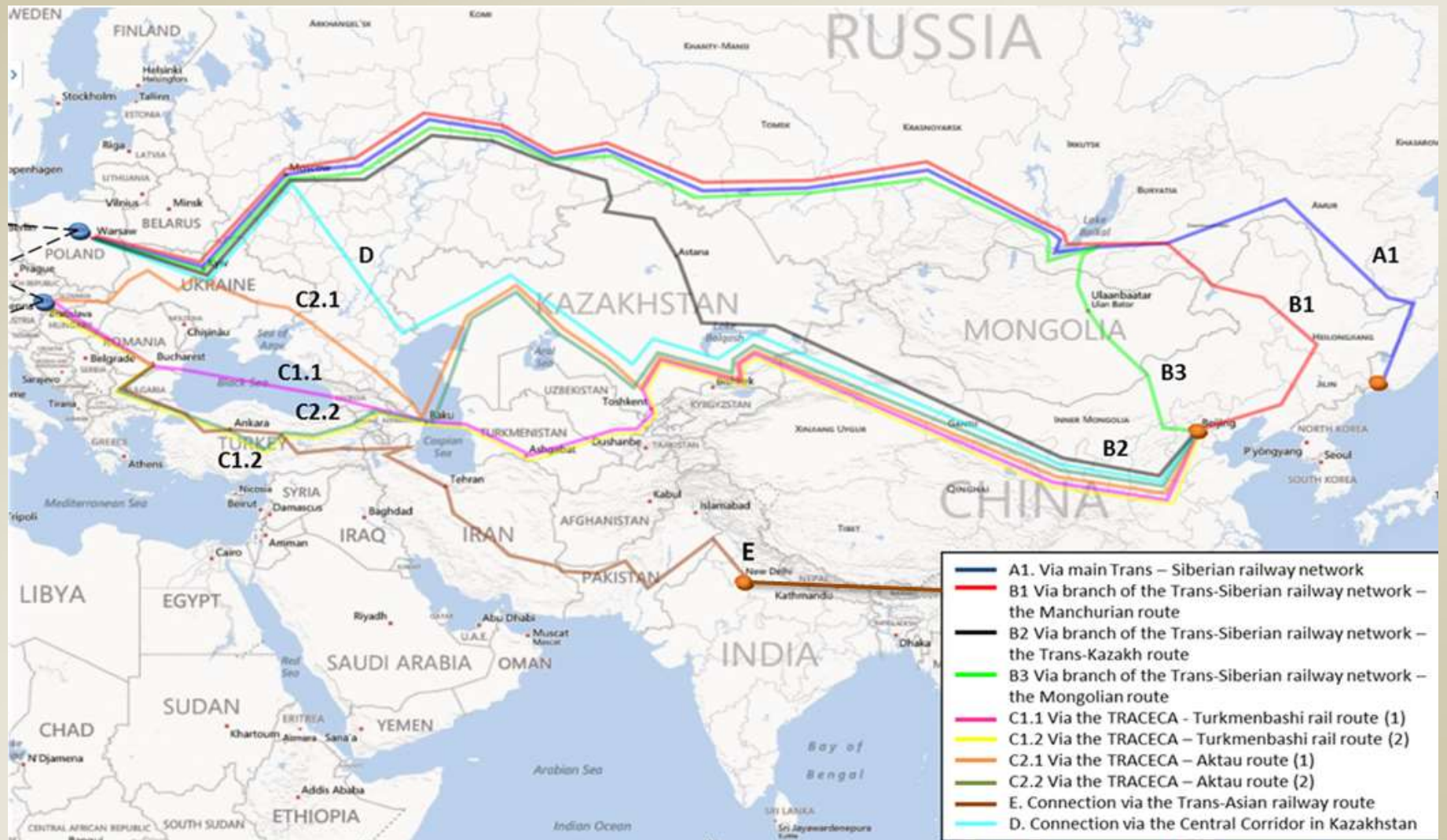


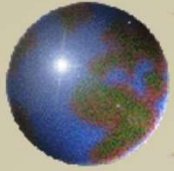
Overland Silk Road (OSR)

- ✦ According to the Chinese Government the Northern (Overland) Silk Road (OSR) “...could become a new transport and logistics artery extending to Western Europe through Central and Eastern Europe”.
- ✦ EU pays great attention on the development and operation of a seamless OSR Rail Transport Corridor and Network.
- ✦ A Research Project titled **NEAR² (Network of European – Asian Rail Research Capacities)** was recently completed, aiming to identify existing bottlenecks along the Trans-Eurasian Corridors, assess potential solutions and highlight research priorities to ensure the long-term viability of the Corridors.
- ✦ Another EU funded project titled **RETRACK** looked at the operational feasibility, the potential of the Eurasian land bridge corridors and the logistics developments along them.



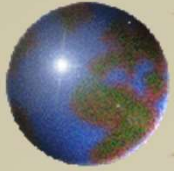
OSR – Main Rail Corridors





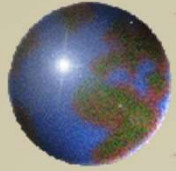
OSR – Main Rail Corridors

- ✦ Three other Corridors, addressing regional needs in the South East Asia, mixing overland and sea links include:
 1. The China - Pakistan Corridor, extending the Karakoram Highway to the port of Gwadar, from where a link to the MSR will be provided
 2. The Indochina Peninsula Corridor (China – Laos – Thailand – Vietnam – Cambodia – Malaysia - Indonesia)
 3. The Bangladesh – China – India - Myanmar Corridor
- ✦ China-Pakistan Corridor, bypassing the South China Sea chokepoints, will fully utilize the MSR network through the Gwadar Port in Pakistan
- ✦ Development of the Corridors is expected to lead to diminishing trade volumes passing through the South China Sea chokepoints and rebalance the volume, directions and target markets the Chinese export trade.



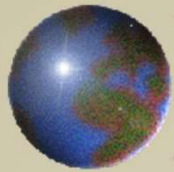
OSR – Issues to be addressed

- ✦ For the railway corridors to develop as a notable alternative, complementary, or in combination to maritime routes, a number of issues need to be resolved.
- ✦ These issues are not unique to the specific corridors:
 - ✓ The great length of the Euro-Asian rail corridors;
 - ✓ the large number of countries involved
 - ✓ the need for adequate traffic to ensure service regularity and punctuality, and
 - ✓ other unique elements of these rail networks make the identification of solutions to these problems more demanding.



OSR – Issues to be addressed

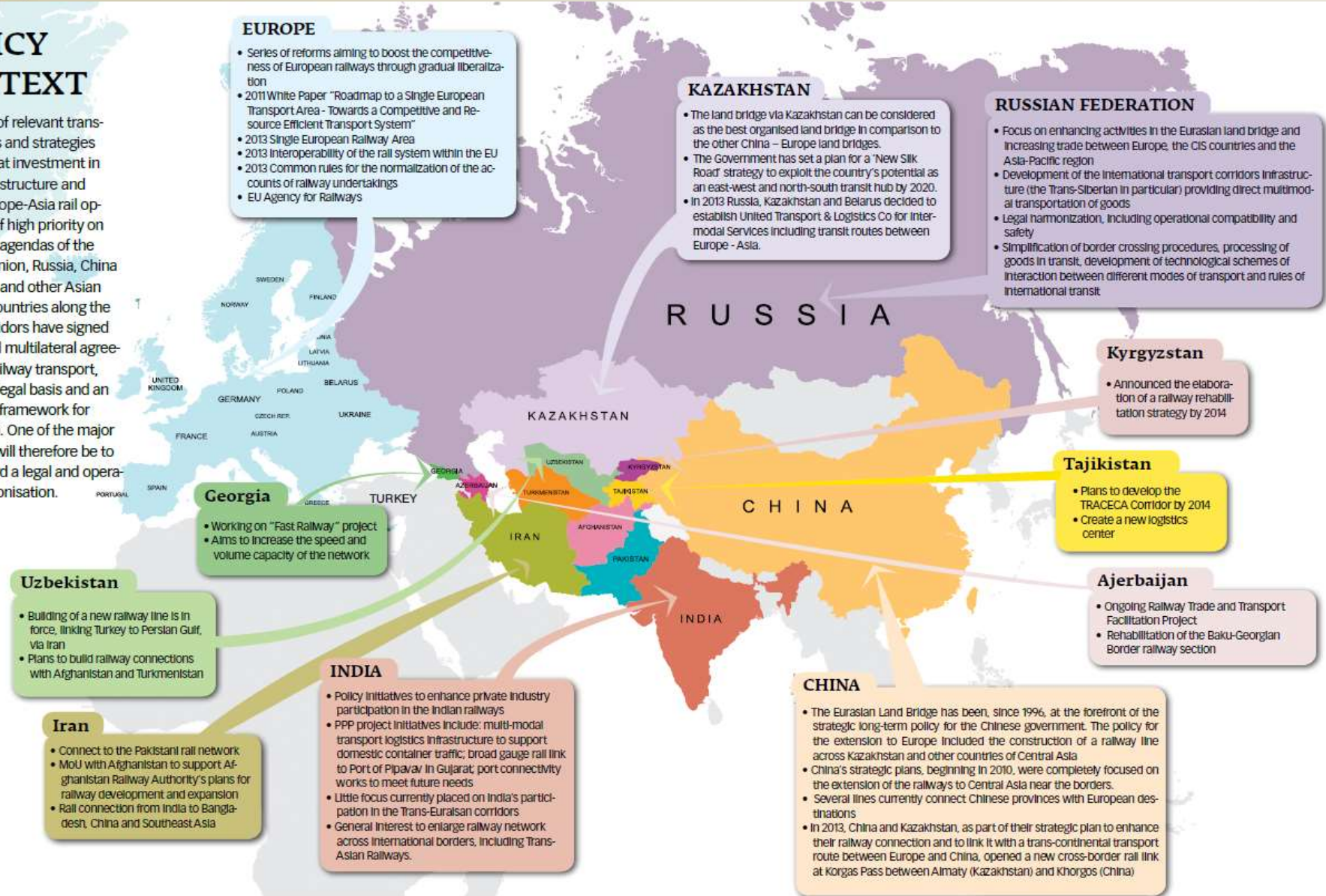
- ✦ Interoperability and missing links
- ✦ Customs and Border Crossings
- ✦ Safety and Security
- ✦ Regulation, Competition and Open Access
- ✦ Policy Environment

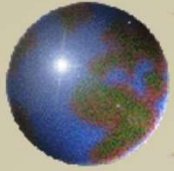


OSR – Issues to be addressed & National Policies

POLICY CONTEXT

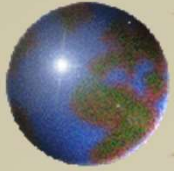
The review of relevant transport policies and strategies indicates that investment in railway infrastructure and efficient Europe-Asia rail operations is of high priority on the political agendas of the European Union, Russia, China, Kazakhstan and other Asian states. All countries along the railway corridors have signed bilateral and multilateral agreements on railway transport, providing a legal basis and an operational framework for cooperation. One of the major challenges will therefore be to push forward a legal and operational harmonisation.





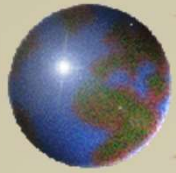
Maritime Silk Road (MSR) - 1

- ✦ The MSR is of crucial importance in sustaining the competitiveness of Chinese international trade.
- ✦ It is estimated that a 10% improvement in maritime connectivity will result in increase of 9% in Chinese manufactured exports.
- ✦ 2004-2012 container shipping contributed to an increase in China's export trade of almost 40%, out of an aggregate accumulated year-to-year increase of 135%.
- ✦ Container port throughput has experienced a fivefold increase between 2001 and 2011, reaching approximately 150 millions TEUs annually.
- ✦ Maritime infrastructure development has undergone a series of important evolutionary steps during the last 25 years



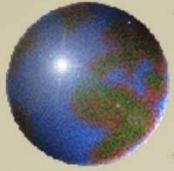
Maritime Silk Road (MSR) - 2

- ✦ The MSR seeks to develop links with a series of regional territories including:
 - ✓ South – East Asia;
 - ✓ Indian Subcontinent;
 - ✓ Middle East and the North Africa (MENA) region;
 - ✓ Mediterranean and
 - ✓ North Europe.
- ✦ Regional economic influence and development of long lasting economic and political alliances is a fundamental component of the MSR initiative.
- ✦ China is more and more dependent on maritime transportation to reach global marketplaces.
- ✦ The dual strategy and development and exploitation of the OSR is of great importance.



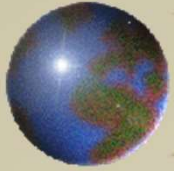
Mediterranean Sea – Strategies and Tactics

- ❖ Strategies and tactics relating to East Mediterranean follow a polyvalent approach.
- ❖ Cosco Pacific has a foothold, through a minority stake, in the Suez Canal Container Terminal (SCCT).
- ❖ Chinese interests have been active in the construction works at the Port Said East Port and al-Adabiya port (at the Suez Canal's southern end).
- ❖ *September 2014* : The same Chinese interests win tender to finance and build a new deep sea port in Ashdod, though TIL (MSC port arm) won the Tender for operation of the port.
- ❖ *March 2015*: Chinese company Shanghai International Port Group (SIPG) wins Tender to operate a new deep sea port being built in Haifa, expected to be operational by 2021.
- ❖ *2014*: China involved in a cooperation scheme with Israel, through a memorandum, to construct a railway line that connects Red Sea Port of Eilat and the Mediterranean Ports of Ashdod and Haifa ("Red–Med").



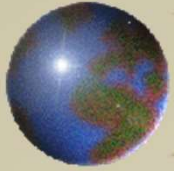
Mediterranean Sea – Strategies and Tactics

- The major foothold of Chinese port interests in the Mediterranean is the Piraeus Container Terminal (PCT) operation of Cosco Pacific subsidiary in Greece.
- Cosco also has a foothold in the port of Genoa and an interest in the port of Venice.
- Along with at least one of the two new ports to be built or operated by Chinese interests in Israel (Ashdod and Haifa), this port network in Mediterranean provides substantial flexibility.



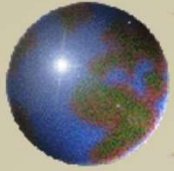
Access to Central and Northern Europe

- ✦ Policy diversification regarding connections to Central and Northern Europe includes development of overland rail link.
- ✦ Land-Sea Express Line between China and Europe exploits fully the location potential of the Port of Piraeus.
- ✦ Advantages include better transit times to destinations and direct access to the East European countries (special economic interest to China).
- ✦ EU and North America are main export destination markets for China, while East Europe is a market segment not fully exploited by Chinese exporters yet.
- ✦ Land-Sea Express Line will be based on access to the Port of Piraeus and the rail links to the CEEC Countries.
- ✦ A China – CEEC Investment Cooperation Fund is about to be established, in accordance with the EU-China 2020 Strategic Agenda for Cooperation.



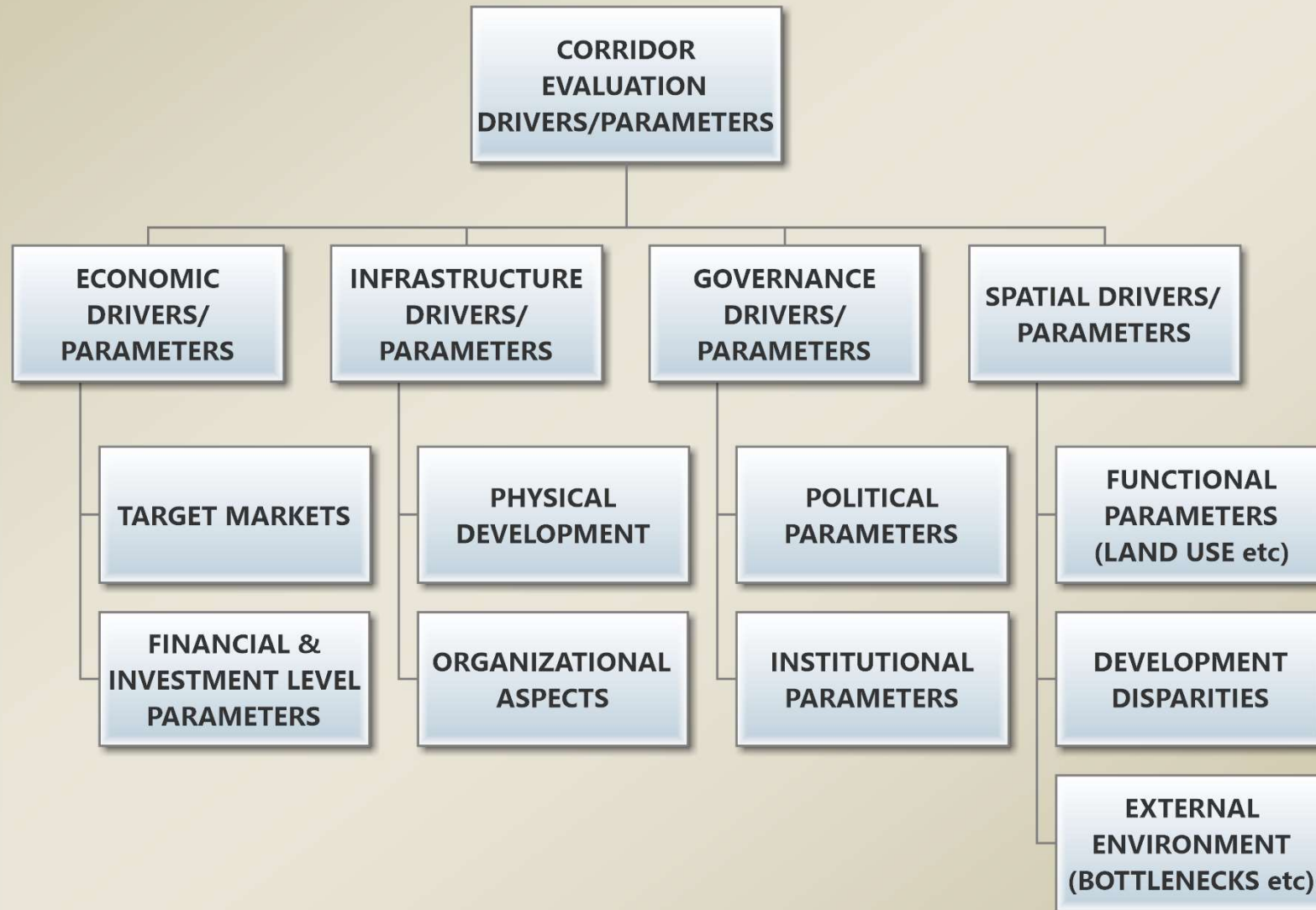
Policy Scenarios and Options

- ✦ Full spectrum of alternative international routes is unlikely to be implemented at the same pace. Policy actions, cooperation agreements and, infrastructure investments need to be prioritized.
- ✦ 4 high level policy scenarios which seek to provide insights in to prioritizing projects are considered:
 - ✓ **Scenario 1:** Exclusive development of the Overland Silk Road (OSR) of the initiative, with a special focus on the Central Corridor via Kazakhstan.
 - ✓ **Scenario 2:** Exclusive development of the Maritime Silk Road (MSR) of the "One Belt, One Road" Initiative.
 - ✓ **Scenario 3:** A combination of the China-Pakistan Corridor with the MSR, through the use of the port of Gwadar.
 - ✓ **Scenario 4:** A balanced mixture of the MSR and OSR alternatives, with the first seeking to realize selected port projects and the later focusing on the Central Corridor via Kazakhstan.



High Level Assessment

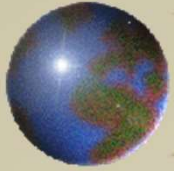
Drivers and Parameters



Evaluation Drivers/ Scenarios	Economic	Infrastructure	Governance	Spatial
Scenario 1 (OSR)	<ul style="list-style-type: none"> - Covers the Central Asia emerging markets - Requires huge land link investments 	<ul style="list-style-type: none"> - Requires massive physical development - Considerable organizational challenges 	<ul style="list-style-type: none"> - High Political Risk in Central Asia - Considerable institutional challenges 	<ul style="list-style-type: none"> - Considerable Planning Challenges - Considerable Bottlenecks - Mitigate Development disparities in China
Scenario 2 (MSR)	<ul style="list-style-type: none"> - Covers a wide Spectrum of markets including East Africa & Middle East - Investments are focused mainly in port development 	<ul style="list-style-type: none"> - Considerable infrastructure levels, focusing on port development - Organizational challenges on infrastructure operation are less than in Scenario 1 	<ul style="list-style-type: none"> - High Political Risk in south China Sea and potentially in other MSR regions - Considerable institutional challenges 	<ul style="list-style-type: none"> - Medium level Planning Challenges - Medium Level Bottlenecks - Waterfront Development Focus in China
Scenario 3 (CPEC & partly MSR)	<ul style="list-style-type: none"> - Covers regional markets of the CEPC, but bypasses ASEAN - Investments are considerable but less than Scenario 1 	<ul style="list-style-type: none"> - Considerable infrastructure levels, more confined compared to Scenario 1 - Considerable Organizational challenges 	<ul style="list-style-type: none"> - Medium Political Risk - Considerable institutional challenges 	<ul style="list-style-type: none"> - Medium to High Level Planning Challenges - Medium Level Bottlenecks - Partly addresses development disparities in China
Scenario 4 (Balanced MSR & OSR)	<ul style="list-style-type: none"> - Potentially can combine OSR & MSR markets - High level of investment, but depends on the development mixture 	<ul style="list-style-type: none"> - Considerable infrastructure levels, depending on the development mixture - Considerable Organizational challenges 	<ul style="list-style-type: none"> - Medium to High Political Risk, depending on the strategy mixture - Considerable institutional challenges 	<ul style="list-style-type: none"> - Medium to High Level Planning Challenges - Medium to High level Bottlenecks - Potentially Mitigate Development disparities in China

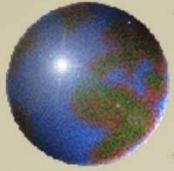


Policy Scenarios Assessment



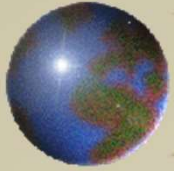
Policy Scenarios Assessment

- ✓ Scenario 4 presents a high degree of flexibility and advantages can be potentially maximized, while challenges are minimized, depending on the mixture of the strategy to be employed.



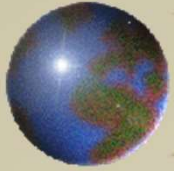
Financial Aspects of the Initiative

- Massive investment plan shaped due to both the economic impact and the geostrategic component of the project.
- USD 40 billion Silk Road Development Fund announced to facilitate funding of the infrastructure development plan of the initiative .
- China Development Bank and Export Import Bank to devote over USD 1 trillion over the course of several years.
- China has also spearheaded the creation of the Asia Infrastructure Investment Bank (AIIB), with the participation of neighboring countries and is scheduled to become operational in late 2015.
- Additional sources of funding may be drawn by China's sovereign wealth fund and China's foreign exchange reserves.
- A USD 46 billion spending blueprint for the China Pakistan Economic Corridor announced, including transportation infrastructure spending.
- During the next year the Chinese Outward Foreign Direct investment (FDI) expected to grow substantially in all infrastructure sectors, including transportation.

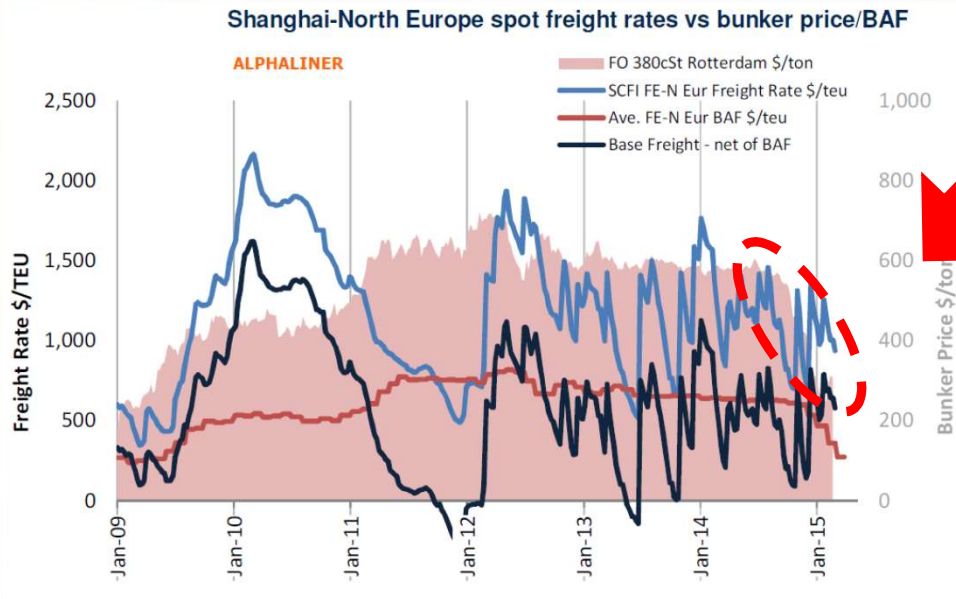


Competitiveness of the MSR - The Role of Container Freight Rates in Asia – Europe Trades - 1

- Overcapacity (and a huge container vessel orderbook) in relation to shrinking rate of demand increase has led to unreasonably low freight rates. Exports in September 2016 tumbled 10.0 % in USD terms and imports fell 1.9 %, on year to year terms, respectively.
- For a certain period of time the Container Shipping Lines acted as “Price takers”, instead of being “Price Makers” as traditionally established.
- Low freight rates were also sustained by low oil prices.
- Very low shipping freight rates pose further difficulties in sustaining the East – West overland rail transport.
- Nevertheless, in the long run, the very low freight rates cannot sustain and, following the Hanjin Shipping case, the freight rates have a distinct upwards trend. Carriers expected to record collective losses of at least \$5 billion in 2016 (JoC, Oct. 2016).

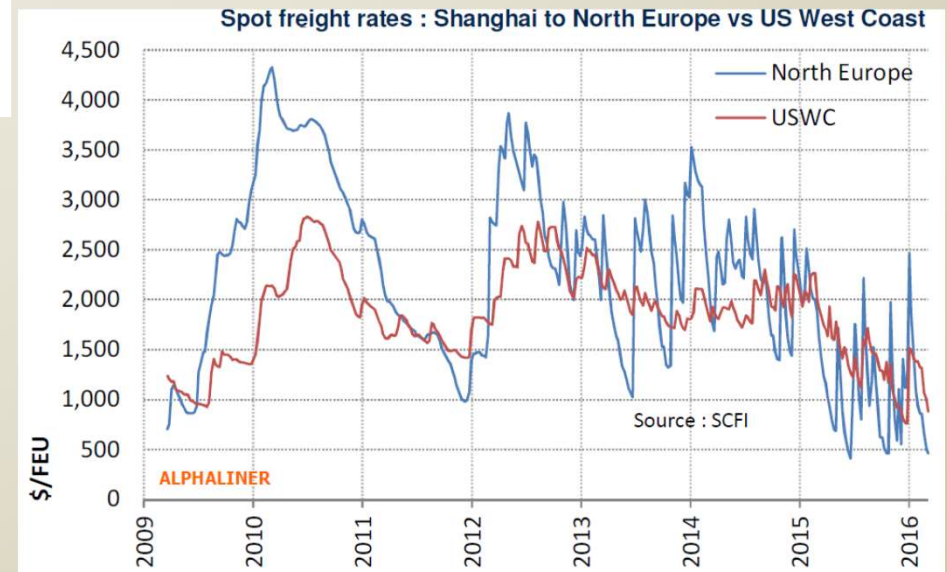


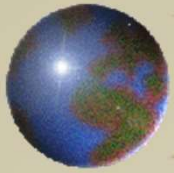
Competitiveness of the MSR - The Role of Container Freight Rates in Asia – Europe Trades – 2 (The Historical Long Run)



Slow Steaming Applied Until Collapse of Bunker Price

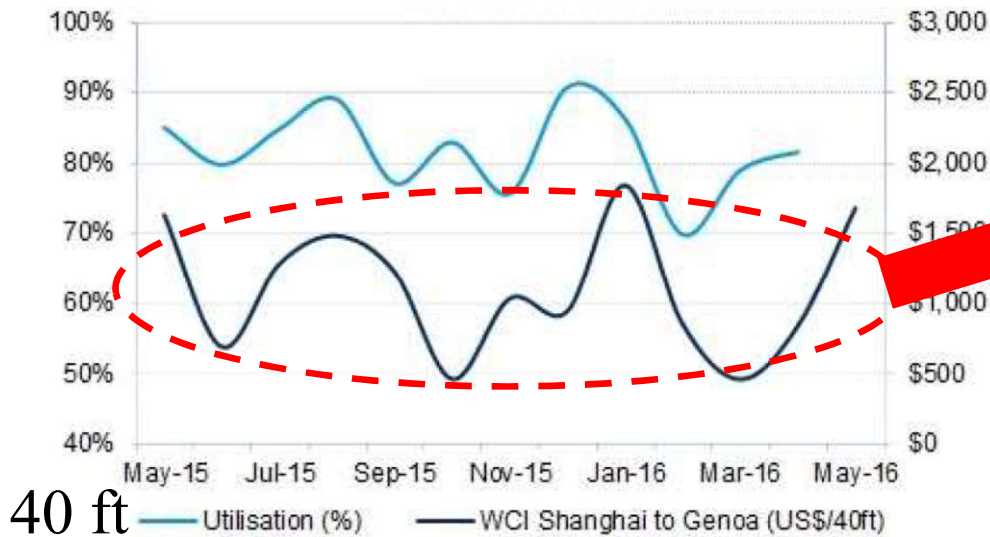
Source: Alphaliner, 2015 & 2016





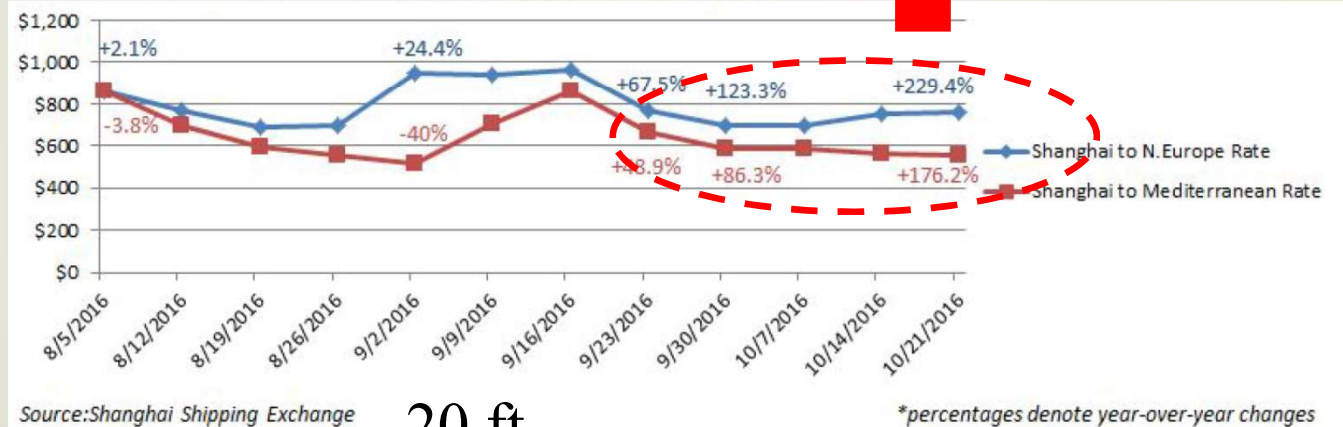
Competitiveness of the MSR - The Role of Container Freight Rates in Asia – Europe Trades – 3 (The Short Run)

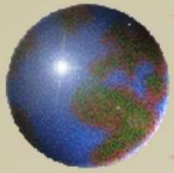
Westbound Asia to Mediterranean Utilisation v Rates



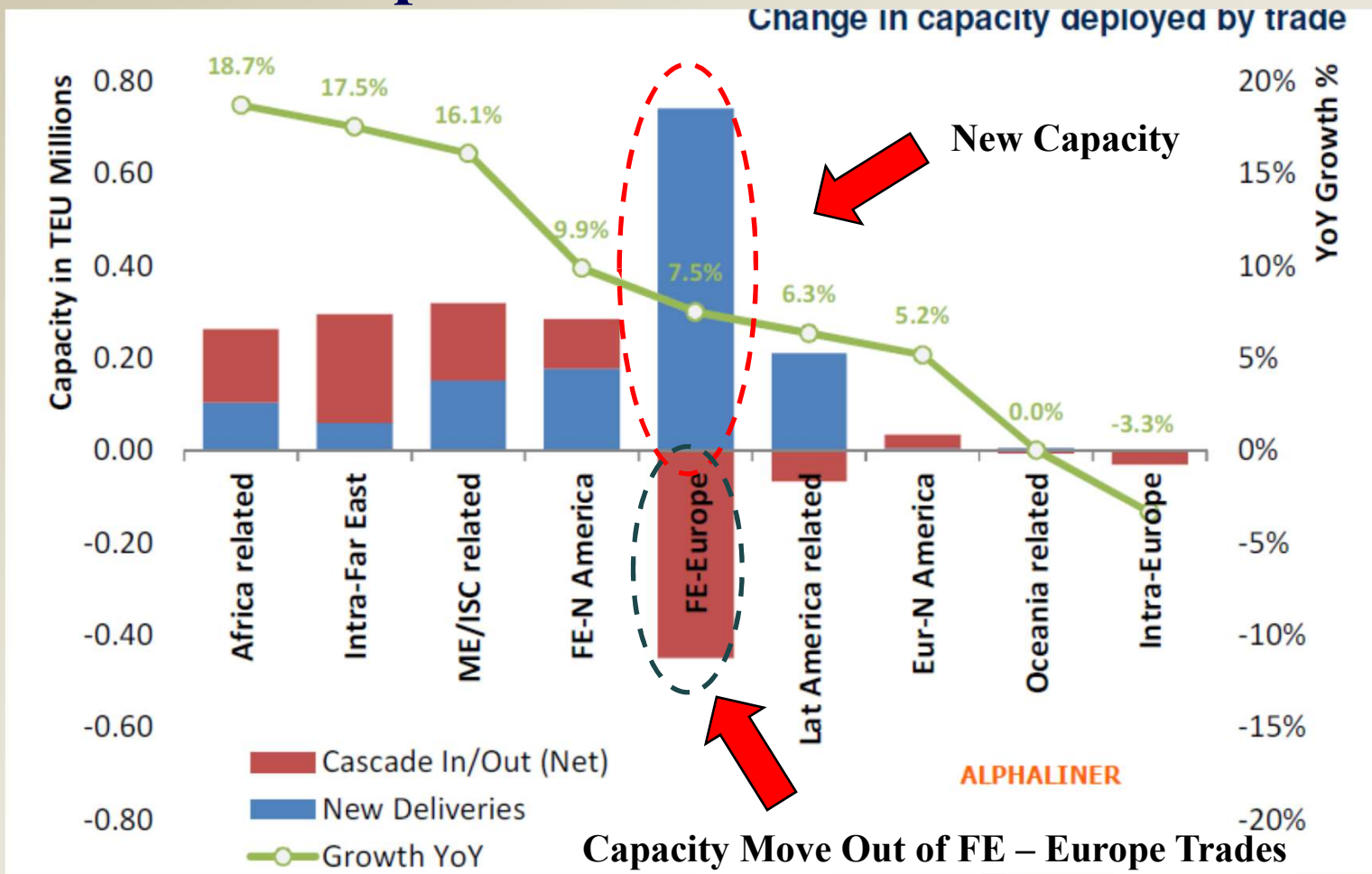
VOLATILITY OF ASIA – EUROPE FREIGHT RATES & DRAMATIC INCREASE DURING THE LAST YEAR

Source: Drewry Container Insight;
Journal of Commerce, 2016

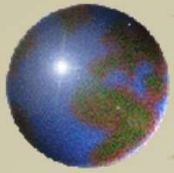




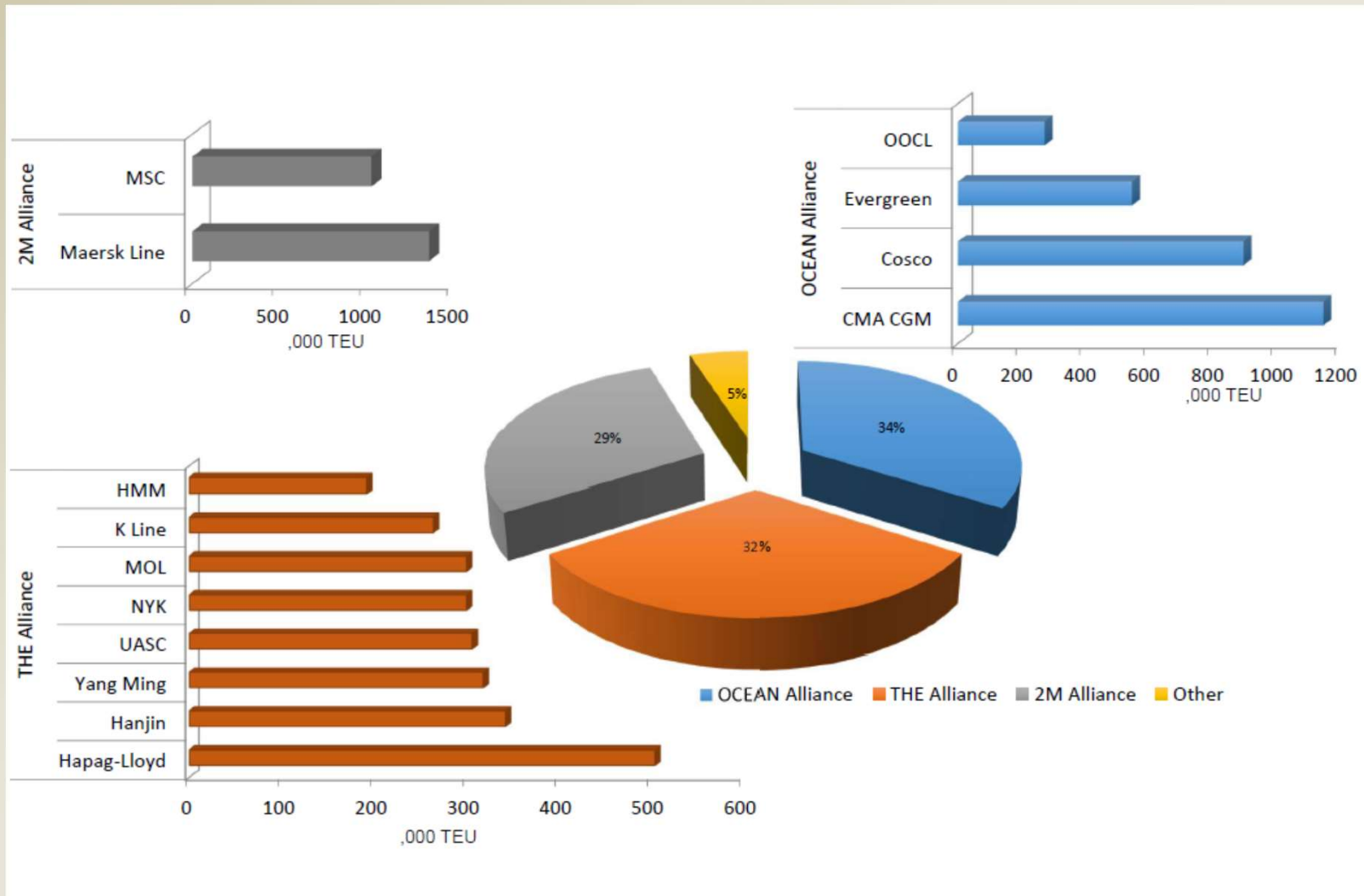
Competitiveness of the MSR - The Role of Container Fleet Capacity Deployed in FE – Europe Trades



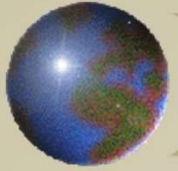
Source: Alphaliner, 2015



SHIPPING LINES ALLIANCES – CAPACITY IN FAR EAST –EUROPE SERVICES

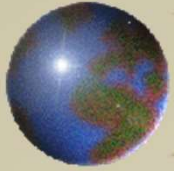


Source: Theofanis and Boile, based on Drewry Consultants Data, May 2016.



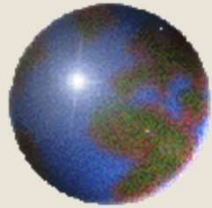
Concluding Remarks (1/2)

- **The “One Belt, One Road” initiative:** a visionary effort to “export” the remarkable Chinese development of the last 2 decades through a polyvalent, yet coherent, strategy.
- **Primary goals:** Central Asia and Europe, particularly East European markets - Africa, Middle East and ASEAN are also strong target markets.
- The initiative **seeks to:**
 - provide a series of trade route alternatives for China;
 - strengthen the global financial position of the country;
 - minimize the potential of trade disruptions in the South China Sea and the so-called "First Island Chain", a series of islands stretching from Japan to the Philippines to Indonesia.
- A balanced, targeted scenario incorporating a mixture of developments towards the implementation of the MSR and the OSR is more attractive, but the degree of the success heavily depends on the next steps.



Concluding Remarks (2/2)

- The East Asia Transport Links need to ensure regional traffic, beyond the Silk Road Economic Belt Road to ensure viability
- Maritime Silk Road links in the Mediterranean and the intention of the Chinese Leadership to establish and develop the Land-Sea Express Line between China and East/Central Europe place the port of Piraeus, Greece at a pivotal point, though the Chinese have also acquired other nodal points in the Med (e.g. MARPORT, Turkey, for COSCOPAC & CMHI; VADO, Italy for COSCOPAC), or are planning potentially to position themselves in locations (e.g. potential new terminal in Algeciras, Spain for COSCOPAC)



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