

## THE EU LOOKING EAST:

Where does the neighbourhood end, and  
how do EU-China economic relations affect the answer?

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# PAPER OUTLINE

1. **The Background** – after 1989, the European Union (EU) was forced to reassess its eastern boundary. There is no physical boundary:
  - pre-1989, set by the Cold War
  - after 1989-91, expansion from 12 to 28 → boundary = former USSR except Baltic countries
    - Albania and the remaining former Yugoslav republics are aspiring members,
    - among non-Baltic former Soviet republics, a Pyramid of Preferences but no promise of membership
2. **The Landbridge** - improved transport infrastructure → ↑ economic connectivity between the EU and countries to the east.
  - rail companies offer improved services across Eurasia, starting in 2007 and more regularly after 2011.
3. **The EU's Relations with China**
4. **Implications for Countries between the EU and China**
5. **Conclusions**

# Overland Trade between East Asia and Europe disappeared between 1500 & 2000

## Overland routes could not compete with ships

By 2000, track for at least four mainlines existed, but none was used as a significant China-EU link

- TransSiberian Railway – 1891-1905 – NE China – Mongolia
  - limited use by China after Sino-Soviet split in 1960
- Kazakhstan-PRC rail link opened in 1990
  - mainly bilateral trade (coal, iron & steel from Kazakhstan to PRC)
- TRACECA – route via Turkmenbashi-Baku Caspian Sea crossing
  - promoted by EU in 1990s, but little used
    - multimodal + costs of crossing Uzbekistan & Turkmenistan
- TransAsian mainline – China-Tehran-Istanbul
  - a line on UN maps after Turkmenistan-Iran link completed in 1997

# Container Ship 2015

— Capacity >20,000 TEUs



# The Rail Landbridge

The situation started to change in 2011 when regular rail services were established between western China and Europe

- starting with Chengdu-Łódź and Chongqing-Duisburg.
  - initial driver = car and electronics companies' efforts to combine European and Asian value chains into Eurasian value chains
- as rail services became more frequent and regular, freight forwarders responded by providing new services (e.g. part-container loads, refrigerated containers, multimodal connections) between a greater variety of China-EU city pairs.
  - > 50 cities in Europe and China are Landbridge termini.
- the most reliable volume data, from the Eurasian Rail Alliance, show growth from 46,000 containers (TEUs) in 2015 to 333,000 in 2019.



# Volume of Traffic on China-EU-China Container Trains, 2015-20

Year	Number of twenty-foot equivalent containers (TEUs)
2015	46,000
2016	104,500
2017	175,800.
2018	280,500
2019	333,000
2020	331,000 (to August)

Source: Eurasian Rail Alliance at [www.utlc.com](http://www.utlc.com) (accessed 31 August 2020).

Note: The Eurasian Rail Alliance (UTLC) was founded by Belarus, Kazakhstan and Russia in 2014 to provide services for container block trains running between China and Europe.

# China Railway Express route map, May 2017



# The process has been essentially market-driven

Although the Landbridge coincides with the overland part of China's Belt and Road initiative, the rail connections were flourishing before the announcement of the BRI in September 2013 and were **well-established before the official BRI launch** in May 2017 ([map on previous slide](#)).

Improved regular rail links with ancillary services, broadened the range of potential customers willing to pay more than sea freight for faster more reliable transport but unwilling to pay for air freight. .

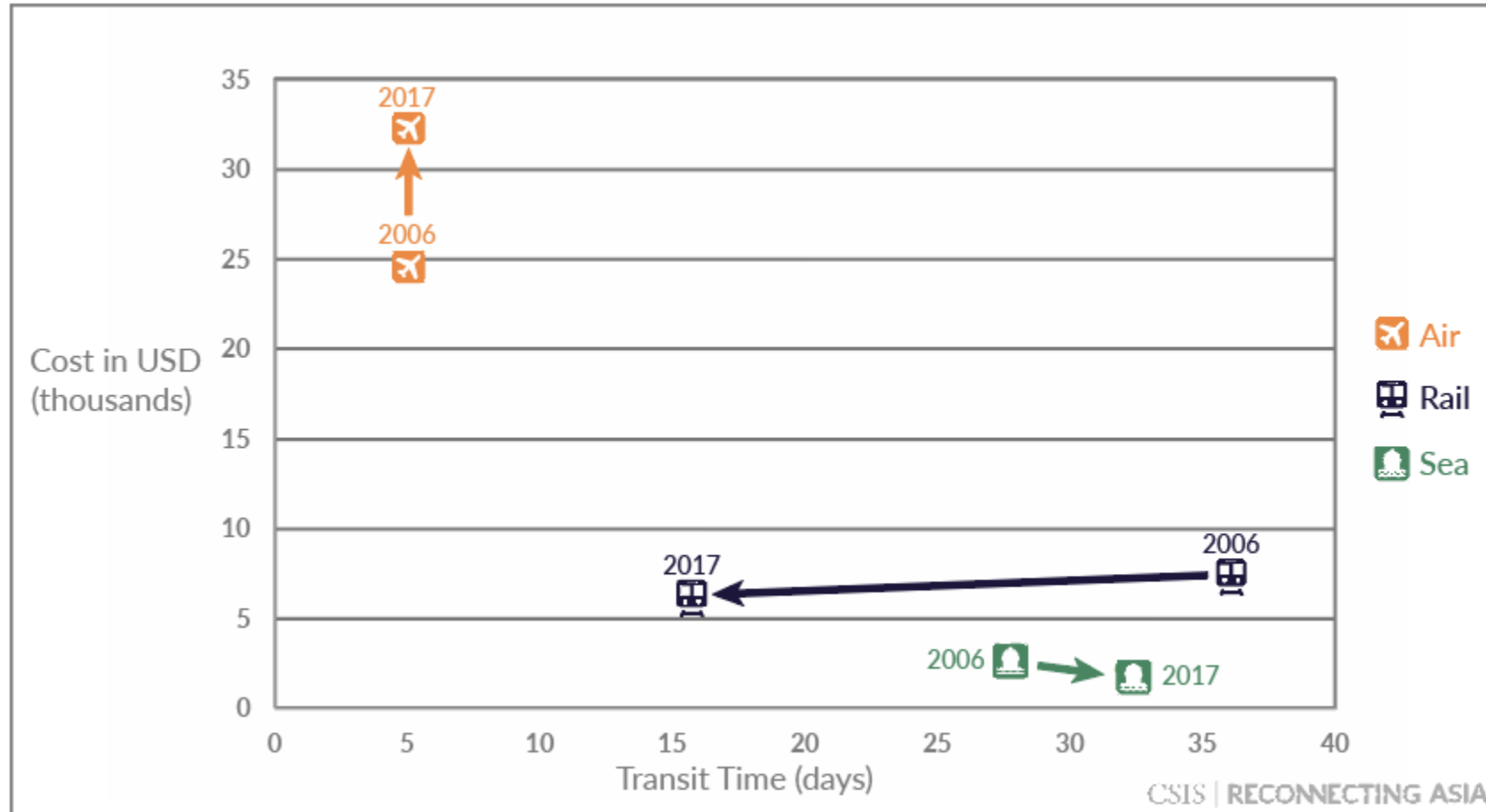
- Price comparisons are difficult (rail freight rates depend on the precise route, added services and state subsidies) but estimates suggest that of rail's time and price advantages were improving during the 2010s ([next slide](#)).
  - subsidies are mainly offered by Chinese provincial or local governments to encourage development of services from their cities - without subsidies the number of routes is likely to fall, and those services will continue to be profitable.
- Variability of time may be even more important than average time.
  - GVCs rely on just-in-time delivery and inventories are anathema.
  - sea freight between China and Europe can be delayed by weather, piracy or queues to use the Suez Canal

Electric trains along well-maintained track are also a more **environmentally friendly** mode of international transport than ships or planes.

- carbon emissions associated with transporting a 12,000-kg load from Chengdu to inland Western Europe:
  - by air c.**54 tonnes**,
  - by maritime and rail routes **3.3 tonnes**,
  - By rail across the Landbridge **2.8 tonnes**.
- regulations to reduce sulphur and other emissions between 2020 and 2050 will add to the cost of maritime freight.



## Time and Cost of Shipping a 40-foot equivalent unit Container from Shanghai to Hamburg by Air, Rail and Sea, 2006 and 2017.



*Source:* reproduced with permission from Jonathan Hillman (2018) and Sabrina Zhang (2017).

# Connectivity via Russia to China has always had a strategic dimension for the EU

The Trans-European Transport Network (TEN-T) dates from July 1996, but extension to eastern Europe was slow

- despite statements of intent to look east in 2011, only in 2017 were Eastern Partnership states included
- The EU Commission's interest can also be traced back to the 2007-12 RETRACK project which aimed to induce a modal shift of freight traffic to rail
  - RETRACK's focus was on developing a commercially sustainable rail freight corridor from the North Sea to the Black Sea (Rotterdam-Constanza), but it also considered prospects for "Eurasian land-bridges" to China.

Indicators of the increased salience of the rail Landbridge include the EU Commission engaging in how to relate the EU-China service to the Trans-European Transport Network (TEN-T) as a top priority in 2020.

- EU Commission policy is within the framework of the European Union's 2016 Global Strategy.
- The Joint Communication on Connecting Europe and Asia, issued by the European Commission (2018), recognized the significance of looking east and included specific proposals.
- The 2020 ASEM summit (postponed until 2021) focuses on "Connectivity"

**The Eurasian Landbridge matters because the situation in Eurasia is changing rapidly since 2011**

# EU and China (relations to 2016)

EU-China relations remained low-profile at least until after China's WTO accession in 2001.

- Diplomatic relations were established in 1975. A trade agreement was signed in 1978 and replaced by a Trade and Economic Cooperation Agreement in 1985. An annual EU-China summit was initiated in 1998.

**Steps forward and backward** as EU-China economic relations strengthened in the 21<sup>st</sup> century, although China focused more on bilateral relations with individual European countries rather than with the EU.

- In its 2006 Strategy the EU placed new emphasis on China, and at the 9<sup>th</sup>. EU-China Summit in 2006 it was agreed to start negotiations on a new comprehensive framework agreement.
  - Steps were taken to upgrade the relationship after 2007, with agreements on geographical indicators, maritime and aviation agreements, and many economic and trade dialogues.
  - However, in 2008 the annual summit was cancelled by China, in response to several EU heads of government meeting the Dalai Lama.
- In 2013 a comprehensive program for closer relations was agreed as the EU-China 2020 Strategic Agenda for Cooperation was launched, but relations soured in 2016 over political disagreements, e.g. on South China Sea issues.

# 16+1 and 17+1

**Piraeus:** In October 2009, Greece leased two terminals from the Piraeus Port Authority to the China Ocean Shipping Company (COSCO) for a 35-year- period. Under COSCO's management.

- in 2016, COSCO bought a 51 percent stake in PPA for €280.5 million
- in 2018, announced a €500 million investment plan to develop Piraeus as a major entry port to the EU.

Western European countries saw a strategic threat, relating Chinese operations in Piraeus to China's policies towards the countries of Central and Eastern Europe.

**The 16+1** cooperation between China and the Central and Eastern European countries began In 2011. Annual summits have been held since 2012.

- the 16 consist of eleven EU members plus Albania, Bosnia and Herzegovina, North Macedonia, Montenegro and Serbia. At the 2019 summit in Dubrovnik, Greece joined the group to make it 17+1 ([map on next slide](#)).

The overall economic significance of the 17+1 forum has been small, especially in comparison to progress made since 2011 on the China-EU rail Landbridge.

- The headline project - a high-speed Belgrade-Budapest rail link - could be a first step in upgrading rail connectivity between Piraeus and the Baltic countries and is often listed by China as a BRI project. However, progress has been slow.



17+1

Darkest = EU 17+1 member;  
Next Darkest = non-EU 17+1 member

Light blue = EU members not  
in 17+1;

Lightest = neither EU nor  
17+1



# Improved EU-China Relations, 2017-18

The 16+1 grouping was opposed by other EU countries (especially Germany) for undermining EU cohesion and seen as unwelcome interference in internal EU structures

- China began to address issues surrounding tenders for infrastructure projects in 2017 and 2018, e.g. by changes in the regulations for Budapest-Belgrade railway construction projects.
  - Two days before the G20 Hamburg summit in July 2017, President Xi Jinping met German Chancellor Angela Merkel in Berlin;
  - In the joint statement at the end of the July 2018 16+1 summit in Bulgaria attended by Premier Li Keqiang, all parties agreed that the 16+1 cooperation is not a geopolitical tool, but a pragmatic cooperation platform where cooperation is in accordance with EU rules.
    - After the July 2018 summit, Li went to Berlin where Angela Merkel, in contrast to Donald Trump's antagonistic rhetoric toward Beijing, praised China for opening itself to foreign investments and confirmed that Germany and China want to maintain the status quo regarding Iran's nuclear agreements.

# Conclusions I

Economic considerations, centred on the emergence of overland transport routes between China and the EU, are playing an important role in framing EU relations to the East.

- The significance of these new routes is apparent from their resilience in the face of strained EU-**Russia** relations since 2014 and in the magnitude of transit revenues for **Kazakhstan**.
- **China** is clearly interested in these links as part of the BRI but is not committed to a single route – and east-west routes are more important than north-south (17+1).
  - Investment in Piraeus may have been part of a policy of promoting Chinese influence in southwestern Europe -- it was also a good investment at a time when Greece needed funds.
  - investment in Piraeus has not distracted China from east-west overland routes, such as:
    1. the rail line via Kazakhstan, Russia and Belarus that includes Łódź as a hub for eastern Europe.
    2. The Trans-Siberian as the most convenient route from Northeast China to Europe
    3. links through Istanbul, which would directly serve southwestern Europeeach of these would divert traffic from Piraeus.

# Main EU-China rail lines, 2020



Source: Zentralasien-Analysen 137, 27 September 2019, page 6.



# Conclusions II

## What about other countries East of the EU?

Central Asian countries have been low on EU radar

- after difficult 1990s, economic performance improved in early 2000s due to the resource boom (oil and gas, minerals, remittances) – economic reforms put on hold,
- since 2014, recognition of the need for economic diversification, i.e. new exports,
- improved rail network → easier to export non-traditional goods, join GVCs, etc
  - but only works if the business & trading climate is improved (i.e. if a country implements reforms)
  - the countries that seize the window of opportunity will develop closer economic ties to the EU.

**General conclusion:** the Landbridge will stimulate the EU to look East as connectivity improves – which countries will be in the picture? - the situation is fluid

- currently China, Kazakhstan, Russia & Belarus
- potentially Uzbekistan, Iran, Turkey, Azerbaijan, Georgia, Ukraine . . .

# THANK YOU

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Any comments welcomed