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THE EU LOOKING EAST:

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

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ABSTRACT: After 1989, the European Union (EU) was forced to reassess its eastern boundary. Fourteen countries to the east have since joined the EU and the remaining former Yugoslav republics and Albania are aspiring members, establishing a geographical border that includes Estonia, Latvia and Lithuania but excludes other Soviet successor states. In the 21st century a Pyramid of Preferences has been created among former Soviet republics: Georgia, Moldova and Ukraine have deep integration well short of membership, Azerbaijan and perhaps Armenia and Belarus are in limbo, the five Central Asian republics are largely ignored, and since 2014 Russia has been subject to sanctions. At the same time, economic connectivity between the EU and countries to the east is being strengthened through improved rail services across Eurasia, starting in 2007 and more regularly after 2011. This paper analyses the consequences of the revival of overland economic links between East Asia and the EU. Will a more integrated Eurasian economy emerge? Which routes will flourish, and what are the implications for the EU's role in the Eurasian landmass? The conclusion is that stronger economic connections will stimulate increased political links between the EU and countries to the east.

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The eastern border of the European Union (EU) was determined until 1989 by the Cold War. The Iron Curtain defined the limits of Western Europe, while Austria, Finland and Sweden felt constrained to neutrality between western and eastern blocs. When Communism in Eastern Europe collapsed in the second half of 1989, the EU was forced to reassess its eastern boundary. With German reunification in 1990, East Germany was incorporated into the EU. Dissolution of the Union of Soviet Socialist Republics in December 1991 created new challenges. Austria, Finland and Sweden joined the EU in 1995. More slowly, five Eastern European countries and the three Baltic countries joined in 2004, followed by Bulgaria and Romania in 2007 and Croatia in 2013. The only remaining aspiring members were Albania and the remaining former Yugoslav republics. In essentials, the new eastern border of the European Union had been established.

Although Europe has no obvious geographical boundaries to the east, there is little question that current members doubt the suitability of the twelve non-Baltic former Soviet republics or of Turkey as members of a European Union. In the twenty-first century an EU Pyramid of Preferences has been created among former Soviet republics: Estonia, Latvia and Lithuania are EU members, Georgia, Moldova and Ukraine have deep integration short of membership, Azerbaijan and perhaps Armenia and Belarus are in limbo, the five Central Asian republics are largely ignored, and since 2014 Russia has been subject to sanctions.

At the same time, economic connectivity between the EU and countries to the east is being strengthened through the spread of global value chains (GVCs). As EU car producers sought more efficient ways to send components from Europe to their assembly plant in China, rail companies offered customized services across Eurasia, starting in 2007 and more regularly after 2011. The central question posed by this paper is whether the impact of Eurasian economic links will outweigh the political *status quo* of a well-defined eastern EU border and limited relations with countries to the east.

The next section describes the evolution of the EU's relations with eastern neighbours and assesses the extent to which it is driven by bloc rivalry. The second section analyses the expansion of rail links across the Eurasian landmass between the EU

and China and the consequences of the revival of overland economic links between East Asia and the EU. Key questions concern which routes will flourish, and how this will affect the countries between the EU and China, as well as the implications for the EU's role in the Eurasian landmass. The answers will be influenced by the evolution of EU-China relations, which are analysed in the third section. Section 4 examines implications for countries between the EU and China. The tentative conclusion in the final section is that stronger economic connections will stimulate increased political links between the EU and countries to the east.

1. Bloc Rivalry

Relations between the EU and its eastern neighbours are often seen through the prism of bloc rivalry, especially since the 2008 war between Russia and Georgia¹ and initiation of the Russian-led Eurasian Economic Union (EAEU) in 2010.² In May 2009, the EU launched the Eastern Partnership (EaP) with six partner countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The EaP neither promises nor precludes the prospect of EU membership. It offers deeper integration with EU structures by encouraging and supporting Partners in political, institutional and economic reforms based on EU standards, as well as facilitating trade and increasing mobility between the EU and the Partner states. A key long-term objective is lifting the EU visa requirement

¹ Relations between Russia and EU members were positive under Boris Yeltsin's post-Cold War presidency, although a split among the Soviet successor states between the GUAM countries (Georgia, Ukraine, Azerbaijan, Moldova) and those closer to Russia (Belarus, Kazakhstan, Kyrgyzstan and Tajikistan) was soon apparent. President Vladimir Putin's position appeared to change around 2007 from viewing NATO as bad and the EU as irrelevant to seeing both organizations as bad. The four CIS countries with warmest relations to the west (the GUAM countries) are the only post-Soviet states that have parts of their territory ruled by outlaw governments supported by Russia but recognized by few, if any, other countries. Shortly after Georgia ratified the DCFTA with the EU, Russia signed a Treaty on Alliance and Strategic Partnership with Abkhazia.

² The Eurasian Customs Union was established by Belarus, Kazakhstan and Russia in 2010. In 2014 the three countries signed a treaty establishing the EAEU, which took effect on 1 January 2015. Armenia and the Kyrgyz Republic joined in 2015. The core objective of the EAEU is free movement of goods, capital, services and people within the single market. Sanctions imposed by the EU on Russia in July 2014 and strengthened in September 2014 undermined the EAEU's common external trade policy as sanctions did not apply to Belarus or Kazakhstan which could be used as entry points to the Russian market. Other EAEU members were not happy when Russia imposed countersanctions on the EU without discussion with fellow-EAEU-members. There were also discrepancies between the EAEU common external tariff and WTO commitments of Armenia and the Kyrgyz Republic.

for the citizens of Partner states; in the shorter term, the EaP envisages visa facilitation and readmission agreements (already signed with Ukraine, Moldova and Georgia) followed by 'visa dialogue', the aim of which is to determine the conditions each country needs to fulfil to have the Schengen visa requirement lifted.

The scope of participation in the EaP and the level of integration with EU structures varies from country to country, depending on internal situations and aspirations. The first step is a bilateral Association Agreement which forms a framework for co-operation on a wide range of issues and is also aimed at bringing the partner closer to EU standards of governance. The Association Agreements contain three parts: a) political dialogue and foreign and security policy; b) justice, freedom and security; c) economic and sectoral co-operation. The next stage is negotiation of a Deep and Comprehensive Free Trade Agreement (DCFTA) with not only liberalization of trade in all areas by lifting customs barriers and trade quotas, but also harmonization of partner countries' trade-related legislation with EU standards and the *acquis communautaire*. Because membership of the World Trade Organization is a precondition for entering into DCFTA negotiations, Azerbaijan and Belarus, which are not WTO members, cannot start negotiations. The other four DCFTAs were scheduled to be ratified at the EU's November 2013 Vilnius summit, but the timetable was upset in September 2013 when Armenia declared that it would be joining the Eurasian Economic Union and no longer wished to have a DCFTA with the EU. Georgia, Moldova and Ukraine signed DCFTAs in 2014, which were provisionally implemented after 2014; by 2017, citizens of Georgia (except for Abkhazia and South Ossetia), Moldova and Ukraine could travel visa-free to the Schengen countries, while citizens of other CIS countries still required visas.

The tensions in Armenia and, especially, Ukraine appeared to highlight the need to choose between alignment with the EU or with the Eurasian Economic Union. Ukraine's vacillation between the DCFTA and the EAEU culminated in pro-EU protests in Kiev and the overthrow of President Yanukovych in February 2014. Russia's response included annexation of Crimea and support for separatist forces in eastern Ukraine, which led to sanctions against Russia by the EU, USA and others, and counter-sanctions by Russia.

At the 5th. EaP summit in November 2017, the EU and Armenia signed a new agreement. which focuses on customs issues and trade facilitation; the agreement does not include tariffs, because Armenia's EAEU common external tariff schedule is non-

negotiable and Armenia already benefits from the EU's GSP+ scheme. The Final Text of the November 2017 EaP summit mirrored that of previous summits, stating that "the summit participants acknowledge the European aspirations and European choice of the partners concerned, as stated in the association agreements", but stopping short of promises of future membership. In his summit statement, European Commission President Juncker was explicit: "This is not an enlargement or accession summit".

During the years 2017-20, the EU's EaP agenda was long on topics, but short on specifics, often set in the context of the *20 Deliverables for 2020* agreed at the 2017 summit.³ No summit was held in 2019, ostensibly due to the crowded EU agenda with Brexit, European Parliament elections and appointment of a new Commission. A video conference in June 2020 agreed to hold the 6th Eastern Partnership Summit in Brussels in March 2021. The EU has been criticized for failing to acknowledge the wish of the three more committed partners - Georgia, Moldova and Ukraine - to push forward on coordinated closer integration with the EU (Emerson, et al. 2020). Meanwhile, in 2020 Russia has accused the EU of meddling in Belarus and the EU has been a bystander in the heightened Azerbaijan-Armenia conflict.

In sum, although EU relations with the non-Baltic former Soviet republics are more nuanced than a simple story of bloc rivalry with Russia, the Pyramid of Preferences is intended to be outside the European Union with even the most preferred partners only offered cautious benefits for labour and goods access to the EU. At the bottom of the pyramid, Russia and the Central Asian countries are clearly excluded from Europe, with treatment of bilateral economic relations no more favourable, if not less favourable, than the EU grants to other third countries.⁴

³ See, for example, the February 2020 update *20 DELIVERABLES FOR 2020 Monitoring – State of Play* available at <https://www.euneighbours.eu/sites/default/files/publications/2020-06/Monitoring%20Spring%202020%20Deliverables%20for%202020.pdf>

⁴ EU-Kazakhstan relations are strongest, following the 1994 Partnership and Cooperation Agreement (PCA). The EU signed an Enhanced Partnership and Cooperation Agreement with Kazakhstan in December 2015; the EPCA was ratified by the Kazakh Parliament in March 2016 and by the European Parliament in December 2017, but not all EU member states have yet ratified the EPCA. An EPCA with Kyrgyzstan was initialled in July 2019 and negotiations with Uzbekistan were launched in November 2018; both countries' PCAs with the EU have been in force since 1999. Tajikistan, whose PCA has been in force since 2010, has expressed interest in an enhanced agreement. EU relations with Turkmenistan are governed by the 2010 Interim Agreement on trade and trade-related matters, as the European Parliament made ratification of the PCA signed in 1998 contingent on the existence of a system to check progress on human rights. All of these agreements are limited, as was the EU's 2007 Central Asia Strategy.

2. Improved Connectivity: The Eurasian Landbridge

The bleak political relations between the EU and Russia contrast with an important transport development. Overland connections between Europe and China became practically non-existent in the five centuries after Vasco da Gama discovered the Cape of Good Hope sea route around 1500. In contrast, after some trial runs in the 2000s, EU rail connections to China through Belarus, Russia and Kazakhstan have carried rapidly increasing amounts of freight since 2011 (Pomfret, 2019a; 2019b).

At the start of the twenty-first century, several rail lines physically connected China and Europe but none was considered competitive to sea freight. The TransSiberian Railway, built between 1891 and 1905 primarily for military reasons, was the most prominent but had been little used for international traffic after the 1960 Sino-Soviet split. A rail line between Kazakhstan and Xinjiang was completed in 1990 and mainly took Kazakh coal, steel, iron ore and other minerals to China in return for Chinese manufactured goods. After a Turkmenistan-Iran railway opened in 1997, a line south of the Caspian Sea from Turkmenistan through Iran and Turkey to Europe featured on UN maps as a TransAsian main line but was unused as a China-Europe link; indeed, the line operated at far below capacity due to excessive regulations for transiting Turkmenistan and Uzbekistan, cumbersome change of gauge operations at the Turkmen-Iran border and slow speed in eastern Turkey. As its flagship aid to Central Asia during the 1990s, the EU promoted the TRACECA route from Central Asia across the Caspian Sea to Baku and then across the Black Sea from Georgia to Europe, but changes of mode (rail-sea-rail-sea-rail) made this route commercially unattractive.

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.⁵ An important initial driver of EU-China rail services was the efforts by car and electronics companies 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

⁵ Between 2007 and 2010 individual car companies (e.g. VW, BMW and Daewoo) had commissioned block trains to take components from Germany to assembly plant in northeast China via the Trans-Siberian and from Lianyungang to Tashkent via China and Kazakhstan. These initiatives showed that rail was technically feasible, but trains did not run to a schedule and were not available to other customers.

containers, multimodal connections) between a greater variety of China-EU city pairs. As more cities offer services, some successfully and others not, it is hard to keep track of numbers but in Europe and China over fifty cities are Landbridge termini. The most reliable volume data are those from the Eurasian Rail Alliance (Table 1), which reports growth from 46,000 containers in 2015 to 333,000 in 2019.

Table 1: 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 (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.

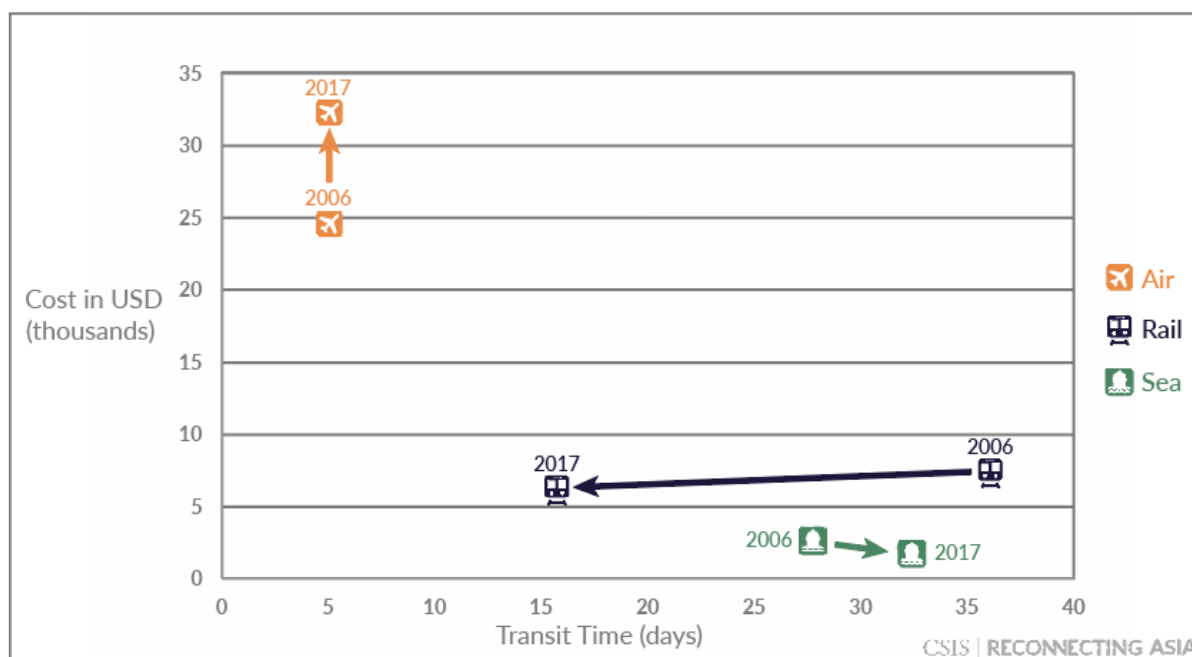
The process has been essentially market-driven (Pomfret, 2019b) and based on pre-existing hard infrastructure.⁶ Although the Landbridge coincides with the overland part of China's Belt and Road initiative (BRI), the rail connections were flourishing before the announcement of the BRI in September 2013 and were well-established by the time of the official BRI launch in May 2017 (Map 1). Improved rail links with regular services connecting a large number of cities, broadened the range of potential customers who were willing to pay more than sea freight for faster more reliable transport but unwilling to pay for air freight. Price comparisons are difficult because rail freight rates depend on the precise route, added services and state subsidies (Bucsky, 2020).⁷ However,

⁶ Some physical infrastructure improvements helped, e.g. better facilities at change of gauge points have reduced overall journey times. The physical investments have not affected the existing main lines much, but new rail lines have opened up alternative routes that are discussed in Section 4.

⁷ The subsidies are mainly offered by Chinese provincial or local governments to encourage development of services from their cities. The central government imposed a cap of 30% on subsidies in 2020 (Chu, 2019) and the subsidies are eventually to be discontinued (Jakóbowski et al. 2018, 25; Pepe, 2020, 20). Given the non-transparency, it is impossible to estimate the impact of terminating subsidies; a consensus among users is that without subsidies the number

reasonable estimates suggest that the time and price advantages of rail were improving during the 2010s (Figure 1).⁸ Electric trains along well-maintained track are also a more environmentally friendly mode of international transport than ships or planes.⁹

Figure 1: Time and Cost of Shipping a 40-foot Container from Shanghai to Hamburg by Air, Rail and Sea, 2006 and 2017.



Source: Hillman (2018), redrafted from Zhang (2017).

The EU Commission's interest in a Eurasian rail connectivity can 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 high-quality commercially sustainable rail freight corridor from the North Sea to the Black Sea (Rotterdam-Constanza), but it also considered prospects for establishing "Eurasian land-bridges" to China. More recently,

of routes will fall as Chinese termini are concentrated in a few hubs, and those services will continue to be profitable.

⁸ Variability of time may be even more important than average time (Ansón et al. 2020). This is especially true for trade along GVCs, which rely on just-in-time delivery and for which inventories are anathema. Sea freight between China and Europe can be delayed by weather, piracy or queues to use the Suez Canal. The increased time for sea freight in the 2010s reflected slow-steaming to economize on fuel and reduce pollution.

⁹ Air freighting a 12,000-kilogram load from Chengdu to inland Western Europe produces about 54 tonnes of carbon dioxide, shipping by maritime and rail routes produces 3.3 tonnes, and rail-freighting across the Landbridge produces 2.8 tonnes (EUCCC, 2020, 17). Regulations to reduce sulphur and other emissions between 2020 and 2050 will add to the cost of maritime freight (Tonchev, 2020).

the EU Commission is engaging in how to relate the EU-China service to the Trans-European Transport Network (TEN-T) as a top priority in 2020 (Walton, 2019).¹⁰ The TEN-T, including guidelines for the development of a Trans-European Rail Network, dates from July 1996, but extension to eastern Europe was slow and, despite statements of intent to look east in 2011, only in 2017 were Eastern Partnership states included. Connectivity via Russia to China has always had a strategic dimension and 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 Eurasian Landbridge matters because the situation in Eurasia is changing rapidly since 2011.

3. EU Relations with China

During the second half of the twentieth century, by far the most important non-member country for EU members was the USA. Japan, and East Asian newly industrializing economies, posed economic problems in the 1980s but never carried the same political, strategic and economic weight as the USA. The Soviet Union posed the major military threat to western Europe during the Cold War, but economic interactions were minor. Russia's economic importance after dissolution of the Soviet Union almost entirely concerned energy, mainly natural gas, supplies, which created divisions among EU member countries but diminished in significance after the collapse of oil prices in 2014.¹¹ Relations with China were peripheral, even after the opening of China's economy in 1979.

Diplomatic relations between the EU and the People's Republic of China 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. EU trade policies mirrored earlier relations with high-performing East Asian

¹⁰ Private sector operators organize an annual Silk Road Summit, and hundreds of logistics service providers attended the 3rd summit in November 2019 in Venlo, Netherlands. The 2020 event will be online in November.

¹¹ EU-Russia relations were generally good under President Yeltsin (1992-9) but deteriorated under Putin, whose first two terms coincided with the massive increase of oil prices from under \$20 to over \$140 a barrel; Putin used oil revenues to pay off the national debt and modernize the military, and especially in his third term after 2012 he adopted a more assertive foreign policy. Writing about Eurasian geopolitics, Calder (2012) gave a central role to Russia based on geography and military power, but Calder (2019) gives more prominence to China as Russia's economic clout diminished after the oil boom ended in 2014.

economies as the EU took antidumping actions and other measures against imports from China. Overall, relations remained low-profile at least until after China's WTO accession in 2001.

EU-China economic relations strengthened in the twenty-first 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 9th. 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, there were setbacks, as in 2008 when 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 and 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. An indicator of relative importance of the EU to China after 2013 was the role of Prime Minister Li Keqiang, rather than President Xi Jinping, as head of the Chinese delegation at the EU-China summits – until the September 2020 virtual summit.

Investment flows in both directions appear to have been driven primarily by financial considerations. The most controversial Chinese investments in Europe were in the Greek port of Piraeus.

In October 2009, Greece leased two of the port's three terminals from the Piraeus Port Authority (PPA) to the China Ocean Shipping Company (COSCO) for a 35-year-period at an annual rent of €100 million. Under COSCO's management, Piraeus went from being the world's 93rd biggest container port in 2010 to the 44th biggest in 2015, by which time Piraeus was the eighth busiest container port in Europe and third in the Mediterranean. In 2016, COSCO bought a 51 percent stake in PPA for €280.5 million under its plan to make Greece a transshipment hub for rapidly growing trade between Asia and Eastern Europe. In January 2018, COSCO announced a €500 million investment plan to upgrade the port for container shipping, cruise ships and ship repairs.

Critics of Chinese investment saw Piraeus as an example of China using debt dependence to gain access to strategic maritime facilities, as in Sri Lanka and potentially in Djibouti (Hurley et al., 2018). However, Piraeus does not have obvious control over shipping lanes and COSCO appears to have made a financially astute investment, buying

an under-realized asset when Greece needed funds. The inflow of Chinese funds in the 2010s helped to relieve Greece's debt burden.¹²

Western European countries saw a different strategic threat, relating Chinese operations in Piraeus to China's policies towards the countries of Central and Eastern Europe. The 2011 China-CEE National Economic and Trade Forum started the 16+1 cooperation between China and the Central and Eastern European countries. The sixteen consist of eleven EU members plus Albania, Bosnia and Herzegovina, North Macedonia, Montenegro and Serbia. Annual summits have been held since 2012.¹³ Trade and investment - especially Chinese exports to Eastern Europe and investment by China in the Eastern European countries - have grown rapidly since 2011, although it is from a very low base and how much of this would have happened in the absence of the 16+1 framework is unclear.¹⁴ At the 2019 summit in Dubrovnik, Greece joined the group to make it 17+1.

The overall economic significance of the 17+1 forum is small, especially in comparison to progress made since 2011 on the China-EU rail Landbridge. The headline project is a high-speed rail link between Belgrade and Budapest, which could be seen as a first step in upgrading rail connectivity between Piraeus and the Baltic countries and is often listed by China as part of the Belt and Road Initiative. However, progress has been slow, reportedly associated with Hungarian reservations about taking on debt through concessional financing from China.¹⁵

Meanwhile, 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 (Oehler-Sincai, 2018). Issues surrounding tenders for infrastructure projects were a bone of contention, but China began to address these in 2017 and 2018,

¹² Reinhart (2019) argues that Chinese capital flows to countries in financial difficulties is a reason why sovereign defaults were rare in the 2010s even though circumstances might have been conducive to default; Greece is a prime example.

¹³ In Warsaw (2012), Bucharest (2013), Belgrade (2014), Suzhou (2015), Riga (2016), Budapest (2017), Sofia (2018) and Dubrovnik (2019).

¹⁴ According to Premier Li Keqiang at the 2018 16+1 summit, China's cumulative investment in the sixteen Central and Eastern European countries was nearly \$10 billion (mostly loans), while the Central and Eastern European countries had invested \$1.4 billion in China.

¹⁵ Modernization of the 350-kilometre Belgrade-Budapest line to allow speeds of up to 200 kilometres per hour was begun in Serbia in 2017, with expected completion in 2023. Other Chinese-funded projects include the China-Serbia Friendship Bridge across the Danube in Belgrade and highway projects in North Macedonia and Montenegro.

e.g. by changes in the regulations for Budapest-Belgrade railway construction projects.¹⁶ Two days before the G20 Hamburg summit in July 2017, President Xi Jinping met German Chancellor Angela Merkel in Berlin; the big photo opportunity was outside the panda enclosure at Berlin's Tierpark zoo where Meng Meng and Jiao Qing had just arrived on a fifteen-year loan, sealing friendship with panda diplomacy.

In the joint statement at the end of the July 2018 16+1 summit in Bulgaria attended by China's Premier Li Keqiang, all parties agreed that the 16+1 cooperation is not a geopolitical tool, but a pragmatic cooperation platform where cooperation is carried out in accordance with EU rules and is conducive to strengthening rather than weakening the EU. 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.¹⁷

The chain of events in 2017 and 2018 illustrated that, whatever China's objectives had been in establishing the 16+1 framework in 2011, in the global environment after the 2016 US election China was keen to strengthen cordial political relations with the EU. In October 2018 the first EU-PRC joint military exercises were held in Djibouti. In its March 2019 joint report with the High Representative of the Union for Foreign Affairs and Security Policy, *EU-China – A strategic outlook*, the European Commission (2019) made a clear statement about collective action:

Neither the EU nor any of its Member States can effectively achieve their aims with China without full unity. In cooperating with China, all Member States, individually and within sub-regional cooperation frameworks, such as the 16+1 format, have a responsibility to ensure consistency with EU law, rules and policies.

However, President Xi appeared to be keeping options open. He announced that he would chair the 17+1 summit scheduled to take place in April 2020 in Beijing and would attend the September 2020 EU-China summit in Leipzig. As it turned out, the 17+1

¹⁶ The May 2017 Belt and Road Forum, launching the BRI, was attended by the prime ministers of Greece, Hungary, Italy, Poland, Spain and Serbia but participants from north-western EU members were at ministerial or lower level. At the Second BRI Forum in April 2019, China promised to address concerns about the original concept by establishing a BRI Debt Sustainability Framework and a panel of international mediators from BRI countries to resolve disputes arising from BRI projects.

¹⁷ This episode is analysed by Jakóbowski and Popławski (2018), who question whether China was seeking better relations with the EU or just with Germany, i.e. continuing to play a divisive game with the EU.

summit was postponed indefinitely due to COVID-19, and the Leipzig summit became a virtual summit held online.

China's relations with Eastern Europe have shifted toward inclusion in the more cooperative relationship between China and Europe that has emerged from the Eurasian rail Landbridge. China includes the Landbridge in its Belt and Road Initiative, although the Landbridge preceded the BRI by several years and has largely expanded through decentralized initiatives by individual Chinese and European cities and companies. The EU-China Connectivity Platform was established in 2015 to explore opportunities for cooperation in the area of transport with a view to enhance synergies between the EU's approach to connectivity, including the Trans-European Transport Network (TEN-T), and China's Belt and Road Initiative (BRI). Expert groups under the aegis of the Connectivity Platform have continued to meet through the ups and downs of diplomatic relations.¹⁸

The European Commission (2019) has reaffirmed that its 2016 strategy remains the cornerstone of engagement, although this needs to acknowledge that China is, simultaneously, a cooperation partner, a negotiating partner, an economic competitor and a systemic rival promoting alternative models of governance, which requires a flexible and pragmatic whole-of-EU approach enabling a principled defence of interests and values. In sum, there are benefits to the EU in cooperating on trade and investment and in negotiating on matters of common interest such as the multilateral trading system and climate change, while acknowledging the existence of fundamental political differences.

4. Implications for Countries between Europe and China

The emergence of overland transport routes between China and the EU is contributing to the economic integration of Eurasia. The significance of these new routes is apparent from their resilience in the face of strained EU-Russia relations since 2014. The COVID 19 shock accentuated the shift to rail. As maritime links were disrupted by quarantined

¹⁸ Eurasian connectivity has also become a major theme of the biennial Asia-Europe Meeting (ASEM) Summits, attended by fifty-one partner countries (the EU27 plus Norway, Switzerland and the United Kingdom and the ASEAN 10 plus Australia, Bangladesh, China, India, Japan, Kazakhstan, Korea, Mongolia, New Zealand, Pakistan and Russia) and two organisations (the EU and ASEAN). The 2020 ASEM summit has been postponed until 2021 due to COVID-19; preparatory work included the first scientific conference on *Asia-Europe sustainable connectivity*, AESCON, in September 2020 (<https://www.aecon.org>).

and otherwise misplaced ships, train companies continued to provide reliable service (Table 1). After the pandemic, some customers may return to using cheaper maritime transport, but others will appreciate the regularity and other benefits of rail transport. Although there are uncertainties, including cessation of Chinese subsidies, the rail Landbridge appears to be sustainable and likely to flourish.

China is clearly interested in these overland links as part of the BRI but is not committed to a single route. Investment in Piraeus may have been part of a policy of promoting Chinese influence in southwestern Europe; it may also have been a good investment at a time when Greece was desperate for funds. However, investment in Piraeus has not distracted China from other overland routes such as using the most popular rail line via Kazakhstan, Russia and Belarus. Several Eastern European cities have become Landbridge destinations; Łódź in central Poland, the main Eastern European hub on the Kazakhstan/Russia/Belarus route, can serve as an effective hub for overland freight from China to all of the 17+1 members south of the Baltic countries (Map 2). China is also exploring rail links to the Black Sea or through Istanbul, which would directly serve southwestern Europe. All of these routes could divert traffic from Piraeus.

Although the BRI is often presented as a grand overarching plan, China's actions can be opportunistic. One week after UN sanctions on Iran were lifted in January 2016, President Xi visited Tehran and the first train from Yiwu to Tehran departed on 28 January; the train bypassed Uzbekistan by crossing Kazakhstan before following the Caspian coastal line from Kazakhstan to Turkmenistan and Iran that had opened in 2013 (Pomfret, 2019a, 270). Other routes were established between Yinchuan and Tehran (initiated in September 2017, with two trains per month running to a schedule by the end of 2017) and from Bayannur in China's Inner Mongolia Autonomous Region to Tehran.

A rail link between Kashi (Kashgar), since 2001 the most western point on China's rail network, and Andijan via the Kyrgyz Republic is under active discussion.¹⁹ That would complete a continuous line from China via Uzbekistan, Turkmenistan, Iran and Turkey to Europe. This southern route is actively supported by Uzbekistan, which is no longer seen as a transit-unfriendly bottleneck since the election of President Mirziyoyev in December 2016. The Marmaray rail tunnel under the Bosphorus that opened in 2013

¹⁹ However, the Kyrgyz Republic is wary of contracting debt, even on concessional terms, from China; the proposed line passes through sparsely populated regions and would be unlikely to generate sufficient transit revenue to service a loan (Pomfret, 2020, 79-83).

added an important piece to the southern route to Europe as transfer to a ferry across the Bosphorus may no longer be required.

Meanwhile, traffic along the old TRACECA multimodal route via Baku, now referred to as the Middle Corridor, has started to increase. Westbound traffic along this corridor amounted to 200 TEUs in 2017 and 15,000 TEUs in 2018, with 60,000 TEUs forecasted in 2019.²⁰ Although a revival of the TRACECA project, the EU has not participated directly, but has been a facilitator on the western side by extending its Trans-European Transport Networks (TEN-T) to include Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine, with a view to connecting the TEN-T with networks in Asia. An important background has been completion of two long-standing projects. The 988km Trans-Kazakhstan railway between Zhezkazgan and Beyneu was completed in 2014, greatly reducing east-west travel times between China and the port of Aktau.²¹ The much-delayed Baku-Tbilisi-Kars railway line, completed in 2017, links the Caspian port to the Turkish rail network.

China has promoted the Middle Corridor. In November and December 2018 services were launched between Venlo (Netherlands) and Xian and from Lianyungang to Istanbul, both of which used the Middle Corridor and the Baku-Kars railway. In October 2019, a 42-container train from Xian crossed the Caspian Sea to Baku and then ran via the Marmaray Tunnel to Prague, illustrating potential complementarities between the Middle and Southern Corridors. There are also complementarities with the TSR route. In May-June 2020, a shipment of forty-one 40-foot containers took fifteen days from Yantai in Shandong province to Kyiv via Mongolia, Russia and Kazakhstan; the cargo was loaded onto ships at Aktau to cross the Caspian Sea and in Baku the cargo was loaded on to a train again before crossing the Black Sea from Georgia to Ukraine. A second train to Ukraine, from Wuhan in June 2020, used the northern route via Mongolia and Russia, avoiding sea crossings.

²⁰ Reported at <https://www.railfreight.com/beltandroad/2019/10/18/first-uninterrupted-rail-freight-journey-from-baku-to-europe/>

²¹ Kazakhstan signed the Trans-Caspian International Transport Route (TITR) Protocol with Azerbaijan and Georgia in April 2017, establishing the TITR Headquarters in Astana (now Nur-Sultan) and opening a TITR Istanbul office later in the year. The TITR's current advantage over the Southern Corridor is due to the poor state of the railway from Tehran to eastern Turkey, which includes a ferry crossing of Lake Van.

Despite major improvements in the rail segments during the 2010s and less dramatic improvements in the Caspian Sea crossing, the Black Sea leg is still the Achilles heel of the Middle Corridor, which makes it less popular among logistics providers. Boat services from the Georgian ports to Ukraine, Romania or Bulgaria are slow with outdated equipment.²² Using the Baku-Tbilisi-Kars railway avoids the need for a Black Sea crossing but runs into congestion around Ankara and difficulties crossing the Bosphorus due to problems scheduling access to the Marmaray Tunnel. However, customs procedures have been reduced from 24 hours to 10-15 minutes and Turkey is addressing the change of gauge between ex-Soviet and Turkish rail networks by laying dual track from the Georgian border to Kars.

China's motivation may have political foundations but there is also a strong economic motive for establishing multiple routes to Europe. Dependence on a single route could allow a transit state to hold up traffic, extorting bigger transit fees until the returns to service providers are driven below the breakeven point. With multiple transit countries, each may try to extract more rents and, absent effective cooperation, the outcome will be a tragedy of the anti-commons.²³

The position of the Central Asian countries is unclear. Currently Kazakhstan is the main transit country.²⁴ Uzbekistan would like to assume a similar role in a southern route to the Middle East and Europe, which will be more attractive if the proposed link from Kashi to Andijon is built. As the Central Asian countries pursue economic diversification, they will want to utilize the infrastructure rather than just collecting transit fees. Whether that happens will depend on individual countries' economic reforms to ease the costs of doing business and to provide good soft infrastructure to complement the improved hard infrastructure. If it does happen, that will further challenge the relationship between the EU and countries to its east.

²² The attraction of entering the EU via Bulgaria or Romania is offset by the poor state of railway track in both countries and by the need to transit Serbia *en route* to other EU countries, which requires customs checks.

²³ The tragedy of the commons arises when too many people have access to a common resource, e.g. a fishing ground may be over-fished or pastureland over-grazed; too much activity leads eventually to destruction of the resource. The tragedy of the anti-commons arises when too many people can access the rents and excessive rent-seeking eliminates an otherwise profitable business; too little activity is the source of loss (Buchanan and Yoon, 2000).

²⁴ According to an Asian Development Bank source, Kazakhstan earned over one billion US dollars in transit fees in 2015 (Pomfret, 2019a, 267).

5. Conclusions

Relations between the EU and countries to the east are driven by a variety of motives and are politically dominated by relations with Russia and China that involve many aspects of incumbent and rising power politics. They are also influenced by developments in other powers, notably the USA, also countries such as Turkey, Iran, India or Japan, and by economic considerations. There are path-dependence features; Chinese involvement in Piraeus may have originally reflected both strategic aims and financial calculation, but COSCO's position in Piraeus may influence future Chinese policy.

The economic significance of the Landbridge is that, initially driven by the needs of international supply chains, once in place it facilitates creation of new value chains. A common observation about the GVC phenomenon that has emerged since the 1980s is that most value chains are regional rather than global (e.g. Johnson and Noguera, 2017), with three main regions of operation (Europe, East Asia and North America). A precondition for extending national value chains into international value chains has been reduction in the costs of international trade. In the 2010s, the Landbridge reduced the costs of shipping higher value/weight items for which rail is more attractive than slower and more time-variable sea freight. These advantages were especially important for the two leading GVC industries, cars and electronics, in which firms sought to link their European and East Asian activities. In the future, availability of reliable railfreight services could be important for the Central Asian countries that participate little in current value chains but whose governments would like to promote such participation in order to diversify away from a narrow bundle of resource exports.

Although specifics are hard to predict in a situation where routes are in competition and countries' use of the landbridge is contingent on trade-facilitating domestic reforms, the thickening of connectivity along rail corridors running east from the EU will revise relations between the EU and countries along those corridors.

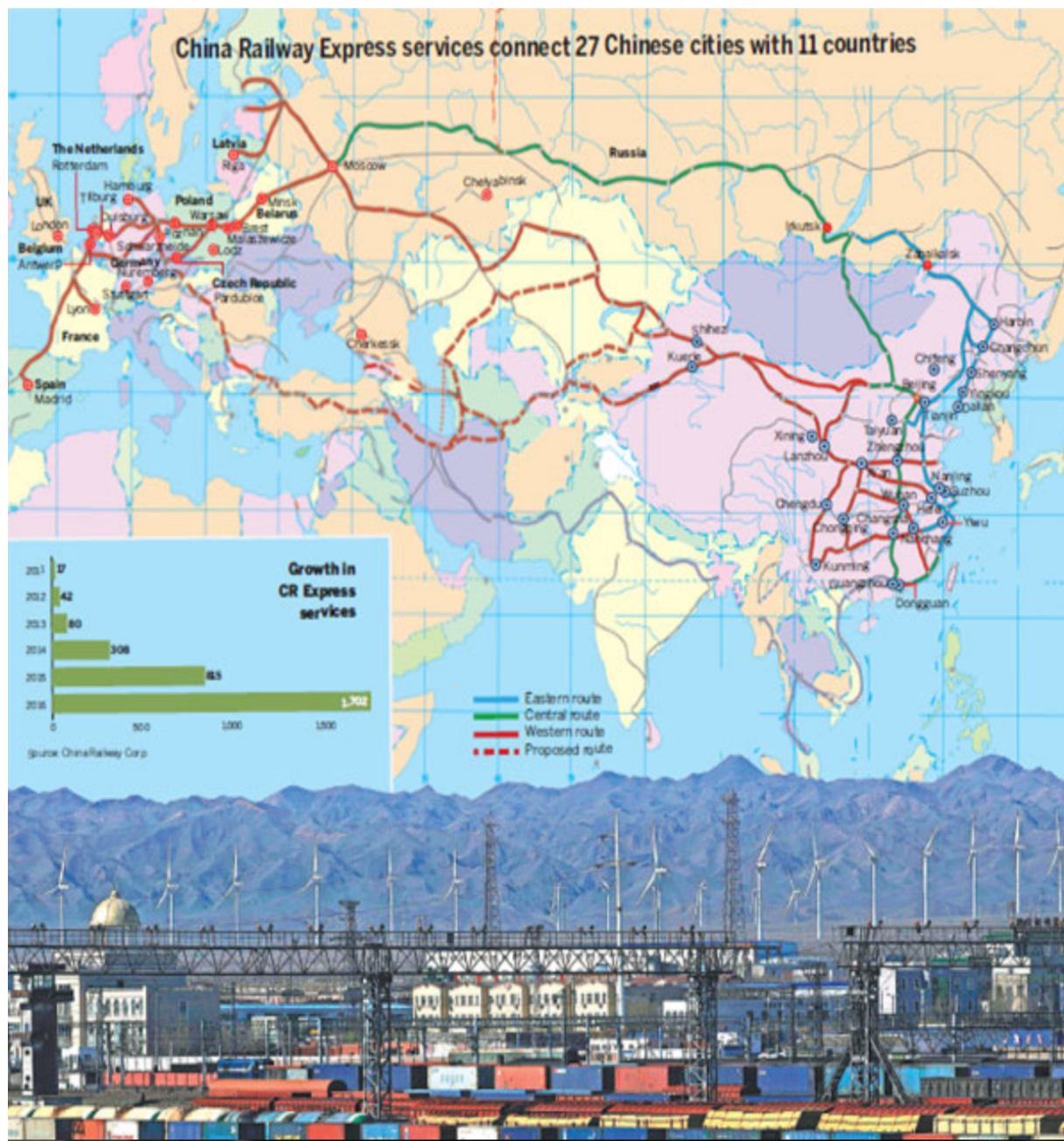
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Map 1: China Railway Express Route Map, May 2017



Note: the dashed lines are proposed China Rail routes. In most cases the track already exists. The only exception is the line across the Kyrgyz Republic

Map 2: Main China-Europe Rail Routes



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