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Impact of the One Belt and One Road Initiative on the European Maritime Field

Abstract

China is nowadays the most influential country in the world market, therefore the Chinese government introduced the One Belt and One Road project in 2013 in an attempt to reinforce its global power, including its major partner (Europe). In this paper the authors analyze the possible advantages and disadvantages that this Chinese initiative brings to the European market and the possible challenges that international policies may bring to the infrastructure created in recent years in the European Union. The authors concentrate on current examples based on China's COSCO Shipping and the influence that this initiative gives to the Chinese government in the world market. The aim of this paper is to present general overview on some of the consequences, positive or negative, of this important project.

Keywords: One Belt and One Road, Maritime field, Logistics, European transport system

1. Introduction

Maritime transportation has a significant social, environmental, political, and economic impact worldwide, as the most important mean of transportation of goods and people [1] participating in 90% of the global exchange [2].

In recent decades China has developed into the European Union's largest trading partner, accounting for \$709 billion in 2020, leaving the United States of America behind with \$671 billion in 2020 [3]. This creates a great weight of Chinese policies in

international markets and gives China great power worldwide with respect to policies and business. In order to strengthen these attributes and advantages, the Chinese government decided to create a massive project.

Since China unveiled its project “*one Belt and One Road*” in 2013, many experts, countries, societies, partnerships and companies have been asking themselves, how will the “One Belt and One Road” project change the negotiations in the world and what advantages and disadvantages it will cause for local companies with respect to Chinese companies? This is a key point that people are not clear about due to the lack of official information and the magnitude of the project. Today, there is great uncertainty in the European region, as it is not known exactly what the effects of the Chinese project will be, the only thing that is clear is that it will have a great impact, both positive and negative.

“In accordance with Chinese governmental reports and with several papers, BRI has a plurality of goals that are mainly connected to political and economic issues (e.g. opening of developing markets for Chinese companies, economic cooperation)” [4].

The idea of the authors in this research work is to contribute to a better understanding about the possible effects and impacts that this project could have at European level, showing some current examples such as the expansion of the Chinese company COSCO Shipping and the development of the Greek port of Piraeus, the possible consequences of the introduction of invasive foreign policies in the market that give high advantages to Chinese companies and the Chinese government and the role of Europe in the One Belt and one Road initiative.

The authors will also discuss on the changes in the logistics sector in the Mediterranean area due to the connection of the Greek port of Piraeus by rail and sea, giving landlocked countries the opportunity to a better connection to the mark and what could be the consequences in the maritime field and what challenges this could create for logistics companies and shipping companies.

2. One Belt and one Road initiative

The One Belt One Road (OBOR) project is a Chinese economic and diplomatic initiative with two main components, the first component being a land route connecting Asia and Europe, and the second component being a sea route connecting the most important ports between Asia and Europe [5]. The land route “Silk Road Economic Belt” will connect 65 countries and 4.4 billion people between Xi’an in western China, through Central Asia to the Middle East, Russia and Europe [6]. China’s vision for the sea route is to connect Asia with Europe, starting the route in Quanzhou passing through Chinese ports before reaching the Strait of Malacca. From Kuala Lumpur the route heads to Kolkata, then through the rest of the Indian Ocean to Nairobi and from there, around the Horn of Africa and into the Mediterranean Sea, through Greece and on to Italy [7]. Figure 1 shows the graphic view of the land and sea route.

The initiative was announced in 2013 by the Chinese government, this is the initiative with the largest economic, social, political and environmental impact in the world [5], involving important aspects that will change the infrastructure of several countries, as this project involves trade policies and interests of countries worldwide [8]. The original plan of this project was to include 65 Eurasian and African countries, covering 62 percent of the global population and 40 percent of the world's surface, giving China great political power in the world. But today the plan has changed, extending the project to Latin American countries [9]. Several countries have shown interest in this project and want to attract China's attention to invest money in infrastructure, technology development, trade policies, routes, etc [10].

Since 2014, the One Belt and Road project has triggered a growth of China's money lending around the world of more than \$120 billion for the construction of highways, railroads and power plants, thus stimulating China's business expansion with other countries, accessibility to land bases and shipping facilities [11].

According to the Chinese government, the main goals of this huge initiative are policy coordination, infrastructure connectivity, unimpeded trade, financial integration and closer ties between the countries that are part of this project. The policy coordination between the countries that must be part of this project is important for the guarantee and success of this initiative. Today different countries and important international organizations have incorporated and supported the project established by China, such as the United Nations in November 2016, the G20 in September 2016, APEC and other international and regional organizations. In March 2019, the Chinese government signed 173 cooperation agreements with 125 countries and 29 international organizations. The Chinese government is expanding the project to include not only Asia, Africa and Europe but also Latin America and the South Pacific [12].

The Chinese project has been interpreted in many ways, one of which is the interpretation as a strategy of developed economies using new infrastructure to intensify regional and global trade relations. It has also been interpreted as a way for China to increase its influence in East and Southeast Asia to compete geopolitically with the United States.

The Belt and Road Initiative (BRI) may not be an economic or political project, but what is certain is that it will transform policies with China on multiple scales and simultaneously create possibilities for global cooperation, global trade and conflict [13].



Source: Bruce-Lockhard (2017)

Figure 1: One Belt and One Road [14]

3. Impact of the one Belt one Road on the European transport system

The last few decades have seen the growth of trade between China and the rest of the world grow exponentially. With the growth of China's exports to the rest of the world, China wants to develop this initiative to improve its transport chains, especially with Europe. The development of this project requires investment in new infrastructure, the adjustment of European trade policies, and the agreement of all countries involved in the One Belt One Road initiative [15]. The implementation of this project will bring benefits and consequences for the transport infrastructure and for the European market [16].

The advantages of implementing the Chinese project between China, Asian, African, and European countries are based on increased rail services, reduced transit times, increased frequency, reduction in transportation costs, and spare capacity on some trains. This may offer opportunities for shippers and their logistics providers to shift some or all of their cargo to rail.

One way to reduce the transit time of products coming from China is for example China's investment in the construction of the Kra canal or the Kra Isthmus Canal [17], with this canal is intended to avoid the Malacca straight, making faster the trade route Far East to Europe, reducing the route to 1,200 kilometers less and 72 hours less travel time, and thus also avoiding the potential bottleneck represented by the Malacca straight [4].

Consequences will also arise, particularly if the new traffic induced by BRI investments causes bottlenecks and capacity constraints, and if these cannot be resolved or alleviated at reasonable cost or within reasonable timeframes [18].

This initiative implies major challenges for the transport structure in the European

Union. The implementation of this initiative entails the change of the structure implemented during the last years in Europe and in the European Union, bringing consequences for seaports, airports, transport routes and landlocked states infrastructure [16].

3.1. Effects of the one Belt one Road on the shipping transport

In recent decades, shipping has been the most important means of transport for global trade changes, as it is capable of transporting large volumes of cargo over long distances. With this feature all major operators used to compete independently to attract customers and serve shipowners all over the world. Ocean transport dominates more than 90% of the world's transports and thus contributes to the world's most important means of transport for the exchange of goods between countries.

The European continent is a crucial area in the Chinese project since it is the end of the connection of sea "21st Century Maritime Silk Road" ending in Greece, and land "Silk Road Economic Belt" ending in Germany, routes between the Asian continent and Europe [6]. The countries of Europe will be efficiently connected by land and sea, especially the countries of Eastern Europe that do not have sea connections.

It is evident that the Chinese initiative is a project that invades the foreign and regional policies of the areas involved, and it will cause many competitive disputes and disturbances with the parties involved (e.g. with the European Union, Russia, etc.). The Trans-European network is an example of policies in Europe that will be affected as this is a European regional policy, while the project, promoted by the Chinese government, is a global policy that will change and distort regional policies.

This project will be a great advantage for Chinese trade *"a 10% improvement in connectivity between countries along the "Maritime Silk Road" [i.e., the part of BRI connected to maritime corridors] would deliver a 3% decrease in Chinese trade costs which would, in turn, boost China's imports and exports by around 6% and 9%, respectively"* [4]. The new logistical route will not only affect the Mediterranean logistical industry and ports, but also the entire European transport industry as discussed by Yang [19] and Costa [20]. While many countries have welcomed this initiative as a form of development opportunity, other countries are concerned about the possibility that China will receive many advantages in competition with local economies. The competition between sea and rail in Europe will increase, as better rail connections from Greece to Central and Eastern European countries will decrease transport times to countries that do not have a sea connection [4].

China has tried to influence the European market and other regions through ad-hoc investments, this has allowed them to enter and somehow manage some important aspects of the initiative in an easier way. A notable example was the investment of the Chinese shipping company COSCO in the Greek port during the financial crisis (2012-2016) [21], another important example was the investment in Sri Lanka container hub in (2016-2017) [22].

Many of the projects that are intended to improve the infrastructure for the Chinese project are under construction or are still being negotiated with the different countries. Some of these projects were completed before the major Chinese “One Belt and one Route” project was unveiled in 2013, these actions allow for the control or expansion of existing infrastructure. An example is again the Chinese shipping company’s investment in Piraeus, where COSCO decided to invest in the Greek port system before the BRI started. This move facilitated COSCO’s entry into the Greek port authorities. Thanks to this negotiation and investment by the Chinese government, COSCO became the main shareholder (currently holding 67% of the capital) making the Greek port an important player in the Mediterranean [4].

The port of Piraeus is not only connected to the Maritime Silk Road, but also to the railroads connecting the port with Central and Eastern Europe, thus using the railroads in a complementary way for a new logistic option in Europe.

Railway transport services are starting to gain an important influence and started to operate before the promotion of the Chinese project. These strategies will affect the logistics industry in a big way, especially the Mediterranean area will be the most affected due to its fundamental role in connecting Europe with the Far East.

3.2. Euro-Asia landbridge corridor

The Euro-Asia landbridge corridor is a rail service that connects all major Chinese industrial cities with strategic cities in Eastern and Central Europe. Most of the services are planned to run on an infrastructure that passes through several Asian countries. This corridor is being created to overcome the Russian rail route (that needs to be updated) and the corridor is intended to serve a wider and stronger Asian network.

This railway project covers all the most economically important countries in Europe, such as Germany, Poland, Baltic countries, Hungary, Czech Republic, among others) in this way allowing the arrival of goods to potential markets, avoiding the (slow) sea routes [4].

Competition between sea routes and rail routes is growing steadily with the development of the China initiative. As described by Li [23], rail services are gaining importance as there are potential goods in need of reliable and fast transport solutions.

The One Belt and One Route project will implement interventions in different ways, mainly through international trade agreements or incorporating currently EuroAsia rail services within other intermodal solutions, and thus improve services and optimize the connectivity of the COSCO network [19].

Cosco started to develop its expansion and connection in the mid 00’s, not only growing in the port of Piraeus but also trying to get involved in multiple economic connections. In the European continent, COSCO Shipping is involved in the port of Zeebrugge (Belgium) and also in the ports of Rotterdam (Netherlands) and Antwerp (Belgium) on a minority basis. COSCO plans the port of Piraeus as the main hub. COSCO bought

Noatum Ports, initiating the management of a container terminal in Valencia and Bilbao.

COSCO owns minority shares in the port of Kumport (Turkey) it is a possible end point of the EuroAsia corridor, and in the Suez Canal, this is a key point to enter the Mediterranean market.

Together with COSCO Shipping's strategy, the investments and expansion included in the BRI could soon mark the future of the maritime sector in the Mediterranean basin. The current investments will allow COSCO to handle and operate over main trade routes, concentrating intercontinental traffic in its hub port. The creation, expansion and connectivity of this network will create advantages for China COSCO Shipping with respect to non-allied maritime competitors, and this will also affect the port market given the potential impact on transshipment flows in both sides of the Mediterranean basin.

3.3. The impact of BRI on Mediterranean ports

Today there is a lack of information about what the impact of the BRI project will be on the European transport sector, it is clear that this project will greatly affect the current structure of this sector and also the competences of the maritime sector. As discussed in the previous report, the only major maritime node currently included in the BRI strategy has already secured a pivotal role in the Europe-Asia trade lanes and an important role in other intercontinental routes. The growing power of China's COSCO Shipping in the European shipping market and the shift and development of connectivity from the port of Piraeus to rail and sea connectivity will generate a major competitive advantage for COSCO, with a cascading effect on other competing ports.

As an example of this impact, it is worth noting that the port of Piraeus has increased its connectivity and has grown by 50% in the last 6 years since the beginning of the BRI era, whereas before it was one of the lowest ports in the world in terms of connectivity [24].

Some competing companies in the maritime market are trying to gain ground in order to be included in the Chinese project, but COSCO has the biggest advantages because it is China and has gained the most ground in the European market in recent years, so it can be included in the project in an easier and more natural way. While the Chinese project generates great opportunities for European and Asian regions that are difficult to reach, this project also generates great problems for local (European) companies, as it creates a gap in the market with Chinese companies.

To obtain the best opportunities for Mediterranean port and logistics players, coordinated efforts should be made with the TENT-T projects to avoid overcapacity and possible competitive advantages for only a few market players.

4. Conclusion

This paper analyzed the One Belt One Road initiative unveiled by the Chinese government in 2013. So far there are many research papers focusing on the political implications of this initiative for Europe and Asia, but there are very few research papers focusing on the advantages and disadvantages of this initiative in the area of maritime logistics and European transport infrastructure. This Chinese initiative offers improved connectivity to countries in Central and Western Europe, especially for countries that do not have a water connection.

The introduction of foreign policies, in this case Chinese, can lead to a large gap and disadvantages for local (European) companies, such as current power that COSCO Shipping currently has as the largest shareholder of the Greek port of Piraeus, since it dominates the port and for this reason dominates the market and the entry and movements in this port.

Other challenges can be taken into account with the introduction of the initiative are the possible overcapacity that can easily be created and the potential competitive advantage for some players in the market.

Countries and governments interested in this initiative should try to strike a balance between the advantages and disadvantages of this initiative and try to maintain stability in the region.

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