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Trans-Eurasian Container Traffic: a Belt and Road Success Story

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Trans-Eurasian Container Traffic: a Belt and Road Success Story

Countries in Northern and Central Eurasia, including its largest economies, Russia and Kazakhstan, were among early believers in the value of the Belt and Road Initiative. Over the last years, they increasingly embraced various aspects of the BRI, most importantly additional investment and rising volumes of trans-Eurasian traffic. The latter, apart from being a lucrative business on its own, should eventually lead to better internal connectivity between inner-Eurasian regions. In this article I provide data and estimates for the spectacular growth of the volumes of trans-Eurasian container transit. Then I move to explain the underlying reasons and prospects. Finally, there are important remarks on the issue of financing, the role of China, and the role of international financial institutions.

In the early 2010s, the growing economic and political weight of China led to the development of a qualitatively new foreign economic policy strategy. In 2013, President Xi Jinping proposed a modern equivalent of the ancient Silk Roads which later has acquired the name Belt and Road Initiative (BRI). In policy terms, China effectively came up with an all-compassing foreign economic policy which was designed to be economically, financially, and politically attractive for other countries. China made a critical and sustainable political commitment to the Initiative. Moreover, it provided a heavy financial impetus. This material involvement went a long way in persuading more than a hundred countries around the world that China was serious about its business.

Countries in Northern and Central Eurasia, including its largest economies, Russia and Kazakhstan, were among early believers in the value of the Belt and Road Initiative. It is probably not a coincidence that the capital of Kazakhstan became the venue for the first official announcement about the initiative by President Xi Jinping. Later on, in 2016, the Chinese and Russian leaders signed a decree on cooperation to tie the development of the Eurasian Economic Union (EAEU) with the BRI. Over the last years, these countries increasingly embraced various aspects of the BRI, most importantly additional investment and rising volumes of trans-Eurasian transit. In this article, I will focus on one 'story' which I judge as an evident BRI success – although not without reservation as it usually is in real life.

Trans-Eurasian land-based container traffic

Trans-Eurasian land-based transit is primarily a 'container story'. Container transport remains virtually the only method of delivery of trans-Eurasian land-based transit cargoes. The use of containers guarantees preservation of cargo, standard dimensions, reduced packaging costs, accelerated cargo handling, unified shipping documents and facilitated forwarding.

There has been a stellar increase in railway container traffic from the EU to China from 1,300 TEU (20-foot equivalent unit) in 2010. At the end of 2018, the volume of China-to-Europe and Europe-to-China transit container traffic crossing the EAEU reached 340,000 TEU. Within this period, the traffic grew at 30 to 100% yearly.

Virtually all this cargo travels along two routes. The first one is the Central Eurasian Corridor (China–Kazakhstan–Russia–Europe, through the territory of Kazakhstan and then on to the transport infrastructure of Russia, then to Belarus, then to Poland). In Kazakhstan, there are two points of entry from China, namely Dostyk (principal point of entry) and Khorgos (volumes are small but rising). The overall length of the route is 7000–7500 km, depending on the specific path. It has a number of advantages over other routes:

- (1) an ability to use a single transport modality (e.g., only railway transport);
- (2) a minimal number of customs clearing points (only two: China–Kazakhstan and Russia/Belarus–EU);
- (3) ‘traditional’ use and relative importance of the corridor, as it is already used to carry cargo in both directions; and
- (4) competitive shipping prices compared with the other Europe–China routes traversing EAEU countries.

The second corridor is the Northern Eurasia one, running from the Chinese North-East directly to Russia, or indirectly through Mongolia, then traversing the totality of Russia along the Transsib, entering Belarus and then Poland. This corridor is longer but also commercially attractive since it originates in Chinese North-East, traverses a number of development industrial centers in Russia, and benefits from preferential rates.

Figure 1. Major Trans-Eurasian Corridors



Source: Vinokurov et al. (2018)

Chinese transport subsidies, provided since 2013, were crucial to jumpstart the process. Our analysis shows that the annual average doubling of the number of container trains along PRC–Eurasian Economic Union (EAEU) –EU routes in 2013-2017 was largely attributable to subsidization of export-oriented railway freight traffic by Chinese authorities. We estimate an average subsidy of \$2,500 per FEU (40-foot equivalent unit). Another estimate of ours is that the average subsidy per FEU was merely 0.4-0.5% of the total value of container-shipped cargoes, which is an efficient and thoroughly justifiable cost of export promotion.

Based on that, we expect to see approximately 500,000 TEU transported along the northern and central Trans-Eurasian routes in 2020. After that, the growth would probably slow considerably, as the premium value trade nomenclature would be close to exhaustion.

The need for national and regional institutional capacity to manage BRI-related policy coordination, economic development, and investments

However, if all countries involved would manage lowering the throughput tariff by \$1,500 per a 40-foot container (from \$5,500-6,000 to \$4,000-4,500), traffic has the potential to grow up to 1-1.3 million TEU. It would demand a higher degree of international economic cooperation than it is the case now. Besides, it demands investments into (mostly auxiliary) transport infrastructure.

In fact, no mega-projects are required to expand the transport capacity of land corridors along the PRC-EAEU-EU routes and boost their competitiveness vis-à-vis maritime routes. What one needs is not a “second Trans-Siberian Railway” but the selective elimination of transport infrastructure bottlenecks: construction of additional railways, electrification of new railway sections, upgraded and modernized locomotives, acquisition of special rolling stock, improvement of border crossing infrastructure, etc. The potential construction of a long East-West high-speed rail in Russia would become one notable exception to this hypothesis. Aiming primarily at passenger transportation, this capital-intensive project would theoretically free the existing infrastructure for freight. However, the economic efficiency of this project still deserves further assessment.

The efficiency of trans-Eurasian transit also gains a lot from effective international cooperation both in terms of physical infrastructure development (railways, border crossings points, marshalling capacities, rolling stock, etc.) and standardization of technical regulations, which will enable to reduce delivery times and costs incurred by carriers. It is not enough for only one country to provide a boost – be it China with its significant subsidies, Russia modernizing its infrastructure (even though Russia accounts for 50 or more percent of the total length of the route), or Poland, located squarely on the way to the main industrial regions of Europe. The maximum potential of railway container traffic could only be reached when the freight rate is about ‘deep sea + \$1,000.’ Currently all the railway routes used to connect China with the EU countries pass through the EAEU countries. There is no uniform through freight rate along their entire length. Each railway company charges its own freight rates while changes

in these freight rates are not synchronised. Thus, no single railway operator can dramatically affect the aggregate amount of the freight rate by changing its freight rates without going beyond its profitability range. Thus, 'deep sea +\$1000' is attainable only if all the counterparties invest in this project and coordinate their efforts.

The realisation of the trans-Eurasian transport corridors' fullest potential requires the concerted efforts of the countries in Western, Northern, and Central Eurasia – naturally, in addition to China as the principal BRI driver. There are several interrelated tasks. First, to increase land-based container traffic. Secondly, to remove bottlenecks in their transport and logistical infrastructure and thereby give impetus to the development of land-locked Eurasian regions—the Russian Urals and Siberia, Central Asia and the western provinces of China. Third, to create new export opportunities for these regions and ensure their participation in the global economy.

Hence, there is a need for a set of arrangements of functional nature at various levels and between various actors. E.g., more work needs to be done to standardise normative documents and technical regulations used in Eurasian countries (rules for shipping various types of cargoes, rolling stock operating parameters, environmental standards, etc.). To ensure regulatory convergence (CIM/SMGS consignment notes, flawless functioning of border crossings, etc.), international working groups representing the ministries of transport, the national railways, and the leading industry players should suffice.

Development Financing

China does a formidable job of financing the BRI-related infrastructure in countries around the world. An interesting feature of the trans-Eurasian container transit is, however, that so far countries along the route (Russia, Kazakhstan, and Belarus) upgrade their railway using their own financial resources. This is likely to change in the future, as Chinese financing is generally welcome, in particular for the capital-intensive construction of the high-speed railways. Besides, national and multilateral development banks should enter the game. Their cooperation among themselves and within the Belt and Road Initiative is vitally important. It includes such international financial institutions as the World Bank, ADB, AIIB, NDB, IsDB, EFSD and EDB but also, extremely importantly, such national institutions as the Chinese Silk Road Fund. They can provide long-term financing for the capital-intensive parts of the BRI story. International financial institutions provide project financing based on signed and ratified international treaties that do not depend on local legislation changes, which helps to mitigate certain risks. In the IFI-related context, we should also stress importance of the availability of subsidized lending as well as grants for technical feasibility studies. They are necessary in many occasions, in particular in Central Asia. Even if the results of such technical feasibility studies would be negative, it would still be money well spent.

Developing Together an Efficient Cross-Border Transport Infrastructure

To sum up, in terms of policy, the key area of common interest for Russia, Central Asia countries and

the BRI is the development of efficient cross-border infrastructure in Greater Eurasia. That means, in particular, modern railway and automobile road transport corridors (I did not touch automobile roads in this article since it handled the current state of container transit where automobile roads did not yet find their place; it might change in the long-term future with the development of driverless lorries). If the physical connectivity of Central Asia, Northern Eurasia and China received further boost, it would greatly contribute to unlocking the potential of inland regions: Xinjiang, Qinghai, Gansu, and Inner Mongolia for China; the Urals and Siberia for Russia; and all five Central Asian countries. The optimal policy objective is to achieve a substantially higher degree of internal connectivity between the inner-Eurasian regions (primarily, but not exclusively, Kazakhstan, Kyrgyzstan, the Russian Urals and Siberia.

In the first half of the 2010s, the People's Republic of China provided a necessary political and financial (investment, subsidies) impetus to the Belt and Road Initiative. In the second half of the 2010s, the countries of Northern and Central Eurasia supported it rather enthusiastically, as they realized that the BRI corresponded to their national interests. A distinct success story – the spectacular growth of the land-based container transit from China to Europe through Kazakhstan, Russia, and Belarus – has materialized. The next several years should bring further material results to all involved countries which promise to be substantial.

Expert Biography:

Evgeny Vinokurov, Fellow of Asian Financial Think Tank, Chief Economist of the Eurasian Fund for Stabilization and Development. His job responsibilities include analysis of global and regional economic trends; macroeconomic analysis of Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan with particular attention to debt and fiscal sustainability; economics of infrastructure; development of partnerships with international financial organizations. Before that, he served as founding Director of the Center for Integration Studies at the Eurasian Development Bank. He holds a Master's Degree from the University of Göttingen, PhD in economics from the University of Grenoble II, and Dr. Hab. in economics from IMEMO, Moscow. He authored and co-authored ca. 150 publications. His most recent books are: Introduction to the Eurasian Economic Union (2018, London and New York: Palgrave Macmillan), and Re-Evaluating Regional Organizations: Behind the Smokescreen of Official Mandates (together with A. Libman, 2017, London and New York: Palgrave Macmillan.)

About AFCA:

AFCA was founded in July 2017. It is the first international financial social organization initiated by China, comprising financial institutions, financial industry associations, relevant professional service agencies from Asian countries and regions on a voluntary basis. At present, there are over 120 members from 31 countries and regions in five continents, covering various fields, including banks, securities

companies, insurance companies, fund management companies, asset management companies, futures, international financial centers, industry associations, fintech and financial services companies.

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