



**Challenges and Opportunities of
Economic Integration within a Wider
European and Eurasian Space**

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**TRANS-EURASIAN LAND TRANSPORT
CORRIDORS: ASSESSMENT OF PROSPECTS
AND BARRIERS**

Executive Summary

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Summary

- **One of the key advantages of economic cooperation on the Greater Eurasian scale is the opportunity it presents to significantly** increase land transport capacity and the trans-Eurasian flows of goods. Raising efficiency of land transport corridors in the Greater Eurasia context will boost the efficiency of trade and create multiple opportunities for manufacturing as well as establishing various supply chains.
- The Belt and Road Initiative (BRI), proposed by China, aims to seek access to new markets, optimal export terms and to boost further the economic development of its remote regions (Xinjiang Uyghur Autonomous Region, Tibet Autonomous Region, Qinghai, Gansu and Inner Mongolia). Among other things, the initiative called for the building of **a network of railways, roads, pipelines and other infrastructure** that would link China to Central Asia, West Asia, South Asia, Europe and Africa.
- For the EAEU countries, a key advantage of continental cooperation within the BRI area is the promise of increased transport capacity, which would generate a number of positive effects for its economic development. The EAEU countries' transport networks would be utilized in a more efficient manner by realizing the potential of trans-Eurasian links. In time, this should lead to **better internal connectivity between inner-Eurasian regions** (Central Asia, Siberia, Urals and Caucasus). It is particularly important for the EAEU countries to promote the development of transport infrastructure in **landlocked countries**. Of the six EAEU member states, five are landlocked.
- Maritime transport currently dominates trade between China and the EU. It accounts for about 98% of all cargo carried between EU countries and China, aircraft transport for 1.5-2%, railway transport via the EAEU for 0.5-1%. Approximately 80% of all cargo between EU countries and China is transported in containers: about 90%, and 70-75% of total EU exports to the PRC.
- At the same time, **over the last four years, cargo flows from China to Europe along railroad routes through the EAEU has increased twofold every year** (although from a low base). It reached ca. 97 thousand containers in 2016. In the opposite direction – from Europe to China – the container freight flow in 2016 also almost doubled, reaching 50 thousand containers a year. That makes 147 thousand containers in 2016. To attract additional cargo flows all countries along the China–EAEU–EU axis, coordinated investment policies and the removal of barriers should be implemented. Based on the analysis of trade flows and tariff structure, **we forecast further growth of EU–China cargo turnover carried by railway transport through EAEU countries**.
- **The discrepancy of the requirements established by regulatory enactments (e.g. length of trains) is one of the most significant barriers**. The train length laid down by different rail administrations (Deutsche Bahn, Polish Railways, Russian Railways, Kazakhstan Temir Zholy, Belarusian Railways, China Railways) depends on a number of factors such as the length of station railway tracks, train weight, traction capacity, route configuration profile, technical capabilities of railway stages (railway sidings and stations, overpasses and control posts, automatic blockage), shunting conditions at stations, technical and technological conditions at the intermediate and local stations, sorting, etc.
- **Differences in gauges**. Transit operations are hindered by the difference in railway track gauges in China and the EU on the one hand (1435 mm), and in Russia, Belarus and Kazakhstan on the other hand (1520 mm). This results in additional expenses being

incurred in the course of cargo transportation due to the need to change wheel pairs at border crossings; besides, the procedure requires a lot of time, particularly for large freight trains.

- **One of the main barriers to cargo turnover along the China–EAEU–EU axis is the insufficient level of procedural harmonization.** In most EU countries, railway transport is regulated in accordance with the provisions of the Convention concerning International Carriage by Rail (COTIF). At the same time railway administrations from the CIS countries, the Baltic States, as well as Iran, China, Mongolia are guided by the Agreement on International Goods Transport by Rail (SMGS). The differences in the system of transport law lead to insufficiently harmonized procedures at the cross-border points, duration of customs and border clearance of goods.
- **The future of cargo flows largely depends on the development of the Polish railway infrastructure and cross-border points between Belarus and Poland.** The Brest – Małaszewicze cross-border point has exhausted its capacity. Moreover, technical parameters of Polish railway infrastructure (length of freight trains, types of fitting platforms for the transportation of containers, maximum allowed weight per axle, maximum allowed speed of freight trains) do not allow to process large container trains. While the container trains travel through the territory of EAEU countries at 45 km/h average speed, in Poland they slow down dramatically to 18-20 km/h. While the length of freight trains reaches 1050 m in the 1520 space, they have to cut down to 600m at Malaszewicze.
- **The Chinese subsidies represent both an opportunity and a systemic risk to the trans-Eurasian container transit.** We estimate that a number of central Chinese provinces subsidize exports at an average level of \$2500 per FEU (40-feet container). According to our estimates, it represents approximately 0.3-0.4% of the costs of exports – thus, the relative costs are not high. However, this subsidy has dramatically improved the economics of land transportation to the EU and EAEU. The stability and possible expansion of subsidies is a key issue for the future dynamics of transit flows.
- **Trans-border investments in transport infrastructure are unlikely** due to several reasons: (1) the White Paper on Transport-2050 clearly articulates the main development priorities that do not assume a significant increase in land transportation; (2) the EU is very cautious about the Chinese capital or investment flows into European transport projects referring to possible risks; (3) the EU has consistently distanced itself from investing in Russia’s transport infrastructure projects in general and in transit in particular; (4) while China invests heavily into the EAEU oil, gas, and mining industries, it has so far provided zero FDI into the transport sector.
- Our conclusion that **large-scale investments into transport corridors will probably remain subject to domestic efforts.** The survey of 30 EU companies (exporters, transport and logistics companies) that we realized as part of the project has strongly confirmed these conclusions.
- The survey realized in the framework of the study also shows that one of the main risk factors is cumbersome regulations and various non-tariff barriers in China. This indicates extra challenges for the EU companies if they pursue the opportunity with EU-China transport corridors. Another high-rated factor mentioned by the European companies is the low quality of transport, customs and logistics infrastructure in transit countries. On the other hand, although the duration of customs procedures, inspections and official procedures of border clearance of transported cargo normally draws special attention of transport related experts, according to the survey this factor appears to be insignificant.

Such factor as specific regulations within the bilateral intergovernmental agreements also appears to be insignificant for the assessment of trans-Eurasian transport corridors perspectives.

- We suggest of **number of recommendations**, including:
 - international coordination of the development of land transport corridors, including coordination of investment policies.
 - Investments into infrastructural bottlenecks. We identify three of them:
 - border crossings (China-Russia, China-Kazakhstan, Belarus-Poland);
 - logistics hubs in Russia and Kazakhstan;
 - Polish railway infrastructure in the East-West direction.
 - regulatory convergence wherever feasible.

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