

**Stanisław Miecznikowski**

Faculty of Social Sciences, Gdańsk School of Higher Education

## **The boost of rail route EU — China in the Belt Road Initiative as U.S. leads to brink in trade war with China and sanctions against Iran**

### **Abstract**

Talks of tariffs is in danger of developing into trade war. America has published a list of some 1300 Chinese goods proposed to hit with tariffs of 25%. After that, China has produced its own list, covering 1300 categories of trade goods. The newest political act, as president Trump withdraw U.S. from nuclear deal with Iran, and introduced trade sanction against this country. Both these acts are tending to stimulate, China regional trade with Africa and Europe through Belt Road Initiative (BRI). The EU is the main player with trade turnover with China. And the rail transport is playing main role in trade turnover. In fact, the greatest opportunity for rail transport in the freight market are its position in the middle between slowly and low cost maritime and speedy and costly air transport. Main players in developing rail transport connection China — EU are the regional Chinese governments and cities.

**Keywords:** stakeholders, trade customs war, sanctions, Belt Road Initiative, the new Silk Road.

### **1. The reason and real consequences of trade war U.S. — China and U.S.'s sanction against Iran**

Talks of tariffs is in danger of developing into cries of trade war. On April 3<sup>rd</sup> 2018, America published a list of some 1,300 Chinese goods proposed to hit with tariffs of 25%. Just a day later, China produced its own list, covering 1300 categories.

According to the Peterson Institute for the International Economics, a think-tank, America's list covers Chinese products worth \$46 bn. in 2017. It's a 9 per cent of that year's total good export to America (Blow for blow. A trade war between America and China takes shape. *The Economist*, April 7<sup>th</sup> 2018, p. 59).

China's covers American goods worth around \$50 bn. in 2017, shares 38% of exports.

Both countries list are, for now, no more than threats. Over the next two month American list will be open for public consultation — there is not deadline for tariffs to come into force. China has said that it will wait for America to move. There is still a chance the two sides will choose a deal over trade war.

America's list was drawn up in response to China's alleged theft of American firm's intellectual property. Tariffs might yet be avoided by China agreeing to buy more American stuff.

But this skirmish follow others. On March 23 2018 America imposed tariffs on steel and aluminium from some countries, including China. That prompted tariffs on covering around \$3 bn. of American export to China. More retaliation is expected, as the Chinese react to separate American tariffs on solar polar and washing machine.

American list is designed to hit products benefiting from China's industrial policy, including its "Made in China 2015", plan to dominate certain strategic sectors. Industrial robots, motors for electric vehicles and semiconductors are all in sight. At least 90 products, including aircraft parts and cars, recorded no Chinese exports to America in 2017 and may be intended as a pre-emptive strike.

That might seem fair in Mr Trump's eyes. But bureaucrats crafting trade protection policy face a trade — off between punching the other country and protecting their own consumers. Even before the latest announcement, some offending products had been dropped from America's list after government analysts identified them as "likely to cause disruptions to the U.S. economy or subject to legal or administrative constraint. The final choice took account of the availability of subsidies from elsewhere. Analysts at Goldman and Sachs, one of the biggest USA bank, estimate that of the products proposed for tariffs, only around 20% of America's imports in 2017 came from China. It's has been noted, that the share is higher for LED television, printers and copies" (Wolf, 2018, p. 9).

The EU countries aren't in trade war with China but afraid for it as Trump's announcement populist policy "America first" The latest U.S. withdrawal from nuclear deal with Iran increased trades ties Europe — China while U.S. introduced trade sanction to enterprises buying oil and liquid gas LNG from this middle eastern country. The German Foreign Minister H. Maas said "We are trying with other signatories of the deal, further to negotiate trade deal circumstances" (Maas, 2018, p. 4). The signatories deal with Iran, without U.S. are Germany, France, Russia, China United Kingdom.

## **2. The element of surprise in the rivalry that shaping the global market**

China is emerging super power. Both the U.S. and EU are incumbents. China rising power economic and political is evident. According to the IMF, its gross domestic products (GDP) per head in 2017 was 14 percent of U.S. levels at market prices and 28 percent at purchase power parity (PPP). It's up from 3, and 8 per cent respectively in 2000 (Wolf, 2018, p. 9).

In 2017, the EU's GDP was 15,3 trillion EURO. Over half of that reached for three biggest economies: Germany 21,3%, Great Britain 15,1%, and France 14,9%. Next were Italy 11,6%, Spain 7,6%, and Holland 4,8% (Eurostat 2018). These countries will be the main beneficiaries of this trade with China. Poland will be mainly a transit country.

In the early weeks of 2018, markets climbed a mountain of optimism, fuelled by a faith in synchronized global growth and loose global monetary conditions.

Confidence was since eroded. Fears that the growth surge may be giving way to a global stalling are undermining the sunny premise that had powered market power.

These cracks are mostly evident in Europe. After a phenomenal (if long awaited) recovery in activity 2017, the business surveys hit a bit of a rut in March 2018. That left investors wondering if the weaker economic data was a blip or a sign of a peak.

The most likely explanation for the downturn in sentiment in the continent was the combination of euro-dollar exchange rate travelling through \$1.26 to \$1.30 and investors fretting over looming trade war. Prospects were hardly looking up for the euro-zone's exporters — which are responsible for a hefty 47 per cent of GDP (Ward, 2018, p. 19).

But the exporters may have ground for optimism. The euro-dollar rate was in May 2018 back below \$1.20, in part because the European Central Bank has made it clear that “patient and persistence” is required with ultra-loose policy.

Trade war fears may also moderate. Xi Jinping, China's president, has indicated that he is willing to discuss China's intellectual property restriction, which act as an impending to foreign business. If the negotiation reduce these barriers to the Chinese market, this could be a boon not just for U.S. companies but business globally. The end result could be more, not less, global trade.

The newest political act, as president Trump withdrew USA from nuclear deal with Iran, and introduced trade sanction against this country. That is negative risk for global war trade and loss without any compensation. But it is tending to stimulate, China regional trade with Africa and Europe through Belt Road Initiative (BRI).

### 3. The major tasks of China's Belt and Road Initiative

The BRI for regional development proposed by Chinese President Xi Jinping in 2013 has attract-ted much attention in both China and the rest of the world. However, its specific contents are still evolving and commentators differ in speculating, what its real objective are (Cheng, 2016).

It would like to raise three general question. First, what are the likely real objectives behind BRI? Second, are investment and trade, considered the “major task” of the Initiative by China to be driven by market — based transaction, or will be a form of foreign aid that is not based on economic calculation of gains and losses? Third, which of the 60 or so countries in Asia, Europe and Africa along the Belt and Road are likely to be the initiative priority targets of economic cooperation?

Commentators have argued or inferred to following as the initiative real objectives:

1. To conquer world markets by opening up the markets of developing economies to deal with (i) China's excess production capacity, (ii) inadequate Chinese domestic demand, and (iii) bottleneck in further expanding the saturated export market economy in developed economies.
2. To make direct investment these countries, thereby securing supply of resources, especially in the natural resource sector. It is a new phase of China's going global policy. Officially it was be proclaimed in 2002 after China's outward investment initiative. It was frequently damped by Western countries, which created various barriers to takeovers, mergers, acquisitions and greenfield investment.
3. To extend the country's global strategy of promoting Chinese currency (yuan) Renminbi (RMB) internationally using Chinese currency as well as part of an excessive foreign reserve.

4. To strengthen the diplomatic relationship building strategy motivated by geopolitical objectives.
5. To counter the economic aspect of the U.S. strategy “Pivot to Asia” which include the Trans-Pacific Partnership (TPP) free trade agreement that appears explicatory and internationally exclude China’s participation<sup>1</sup>.

More important, some of the countries in the Belt and Road regions are U.S. allies who has been given incentives to seek confrontation with China, as a part of Western countries. Some countries such as Russia and India are themselves historical and future regional rivals of China striving to expand their own sphere of influence. And some countries are fence-sitters ready to benefit from the underlying China — U.S. in Asia and beyond.

Given the above realities and the gap in overall economic power and military might between China and the U.S. would be highly questionable that China has either the ambition or the capability of grand economic and geopolitically in the Belt Road Regions.

AS we have taken into account these objectives and realities, UE is the main player with trade turnover with China.

#### **4. The importance of railway freight transport with trade services UE — China**

At the beginning of actual decade between China and Europe, the rail freight transport dynamic’s increased one hundred times. Since 2011 is operated 6637 rolling stock train’s units in both direction, as well as in 2017 only, up 3673 units. The value of the goods transported can be assessed over \$22,9 billion dollars. It’s share 4 percent of global trade turnover China — EU. Over two-thirds of the transported load rolling stock units arrived from China to Europe. That showed EU’s trade imbalance with China.

In 2017 from China to Europe transported about 200 thousand containers measured in TEU, while with maritime about 10 million TEU.

The rail connection can be able to achieve Chinese market competitiveness in technical technology advanced logistic in comparison to Asian competitors. Otherwise, it’s a chance for Europe to achieve more stronger position especially in luxury and food’s sectors.

The greatest opportunity for rail transport in the market, that its position is in the middle between slowly and low cost maritime and speedy and costly air transport. In the freight connection between terminals Europe and China: by air transport it takes five to nine days, by rail transport 15 to 19 days, and maritime 37 to 50 days. The competitiveness freight rail transport to maritime are increasing when localization of terminals are far away from ports.

The railway efficiency of add value freight transport is high in comparison with maritime, while there aren’t wasting of frozen capital in longer trip in both direction Europe — China.

<sup>1</sup> At the beginning of Trumps presidency, U.S. left this trade agreement but other eleven members stay in. The TPP proclaimed to operate with higher WTO standard agreement. But paradoxically includes economies that are clearly less open than the China economy, such as Vietnam.

Development of the transport corridors are a long term strategy of the Chinese government with Central Asia States, European Union members and inner central and western Chinese provinces.

The currently existing railway link between China and Europe, the so called new silk road runs through Kazakhstan, Russia, and Belarus. It crosses the border between China and Kazakhstan next to Druzhba west of Urumqi. The line is electrified to the border of China. At the border crossing Alashankou-Druzhba there are sorting stations and transshipment terminals on both sides of the border. It results from different track gauges (1435 mm in China and 1520 mm in Kazakhstan). From Druzhba the line runs north-west passing the Lake Balkhash from the north to the hub station in Mointy. So far this line has not been electrified and remains a one-track railway. From there the corridor runs along the main railway of Kazakhstan of Alma Ata to the present capital of Kazakhstan, Astana. Then it runs west in the direction of Kazakh-Russian border. This section is a double-track railway and it is electrified. This is the main railway corridor between Alma Ata and Moscow. It crosses the Russian border next to Kartaly and then runs via Magnitogorsk and Ufa to Kazan and then along the main corridor of the Russian Federation via Nizhny Novogrod to Moscow. In Moscow starts the Pan-European Corridor II (E20)<sup>2</sup>, which runs via Smolensk, Orsha, Minsk, Brest (Belarus) to the border crossing Brest-Terespol (Poland), where gauge changes from 1520 mm to 1435 mm (see Figure 1). In Minsk (Belarus) starts the railway to the Baltic States.

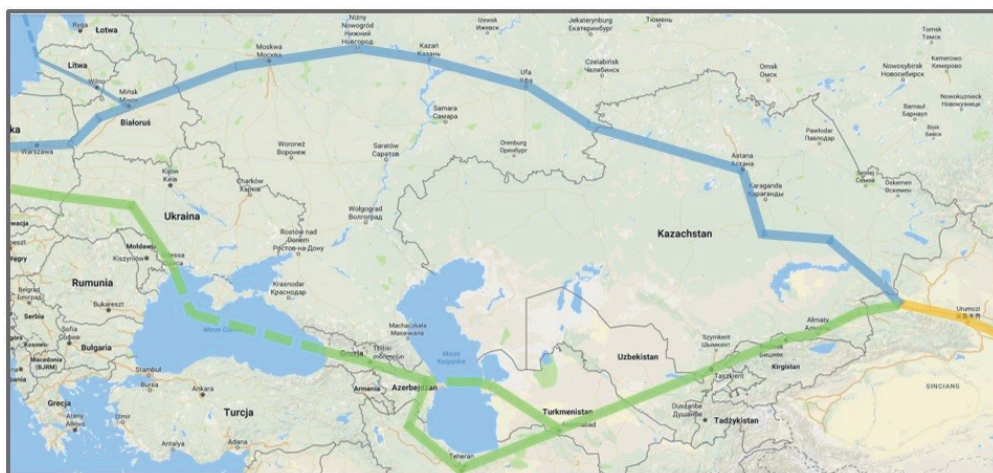


Fig. 1. The New Silk Road and projected railroad corridor via Central Asia

Source: Over capacity of container shipping as a challenge to rail silk road competitiveness, S. Miecznikowski, & T. Radzikowski, 2017, *Research Journal of the University of Gdańsk, Transport Economics and Logistics*, 70, 127, DOI: 10.5604/01.3001.0010.5932.

Basically, corridor E20 runs along railway line no. 2 to Warsaw and then along railway line no. 3 via Łowicz, Kutno, Poznań to the border crossing in Słubice. The complementary corridor C-E20 is essential for freight transport. It passes the Warsaw

<sup>2</sup> West-East corridor.

hub from the south (railway lines no. 11 and 12). Both these corridors are double-track and electrified. They are or will be modernised, but already now for freight trains parameters allow for reaching the maximum speed of 80–120 km/h and axle load of 221 kN.

At present the journey time from China to Europe along the new silk road lasts 2–3 weeks, while the sea voyage lasts 5–7 weeks (Mazur, 2016). The condition of the railway transport allows for shortening of the journey time. Railway transport from China to the European Union requires at least two gauge changes (China-Kazakhstan border, Belarus-Poland border). Moreover locomotive changes are required at least ones (Mointy, Kazakhstan). It means artificial prolongation of the journey time. It is also worth considering that the present corridor in inter-modal transport does not allow for the full use of parameters, which in the European Union amount to 120 km/h.

The present corridor, which is based on one railway (in a big part one-track railway) will reach a high capacity level with the rising cargo traffic level. It will mean the necessity of preparing alternative railways. In Kazakhstan the existing railways will have to be extended and electrified. It also important to consider the fact that in the corridor there are railways with a high level of traffic, mainly passenger traffic. Taking into account the growing cargo traffic level between China and Europe, the capacity will be insufficient.

The existing railway corridor from China to Europe via Kazakhstan, Russia and Belarus is becoming insufficient. The interested countries, including first of all China are aiming at creating a new railway corridor via Central Asia, Iran, the Caucasian countries and the Ukraine. That corridor will be multimodal, as it runs across the Caspian Sea and the Black Sea in different options.

That corridor, similarly to the existing one, starts in Urumqi (China) and runs west crossing the Chinese-Kazakh border next to Khorgars. Then it runs via Alma-Ata (Kazakhstan), Bishkek (Kirghizstan), Tashkent (Uzbekistan), Ashkhabad (Turkmenistan) to the port in Turkmenbashi (Turkmenistan). Between Turkmenbashi and Baku (Azerbaijan) there will be a sea link across the Caspian Sea. The next part will run through Azerbaijan and Georgia to Poti on the Black Sea. There will be a sea crossing between Poti (Georgia) and Odessa (the Ukraine). In Odessa the corridor will join the European E30 corridor running north-west through the Ukraine and southern Poland to Germany.

Another option which will enable avoiding the Caspian Sea and connected with it transshipments is the railway connecting Ashkhabad (Turkmenistan) and Teheran (Iran) and north to Azerbaijan or north-west through Armenia to Georgia. However, this link requires constructing a new railway line between Iran and Azerbaijan or modernization and partial reconstruction of the existing railway line Teheran — Tabriz — Julfa — Nakhichevan (Nakhichevan Autonomous Republic) — Erevan (Armenia) — Tbilisi (Georgia). The Teheran-Azerbaijan option requires constructing a new railway line from Teheran to Astara (Azerbaijan) and modernization of the existing railway line to Baku. In the Teheran-Tbilisi option the railway infrastructure exists although it is out of use on the border between Nakhichevan Autonomous Republic and Armenia due to the military conflict between Azerbaijan and Armenia.

China together with the countries of Central Asia started the realization of the railway corridor from Urumqi to Teheran (Iran). It will have a standard gauge of 1435 mm and will be electrified. However, it will require the construction of a new railway line as the gauge of the railway network of Central and East Asian countries is 1520 mm. Also, the railway line between Iran and Azerbaijan must be constructed but it would not be necessary if the former railway corridor connecting Iran and Russia could be used. It requires, however, terminating the conflict between Azerbaijan and Armenia. This railway should be modernized and partly rebuilt. It may be economical to shift the corridor through Turkmenbashi and using sea link on the Caspian Sea.

On the territories of the Caucasian states the main mostly two-track electrified railway Baku — Tbilisi — Poti may be used. That line, however, may require modernization.

The Ukrainian part of the railway is also prepared to be incorporated to the corridor but it may require modernization. It is worth emphasizing that between Odessa and the Ukrainian-Polish border the corridor may be composed of at least two railways. The transit traffic may be served by three border crossings: Mostiska-Medyka, Izov-Hrubieszow, and Jagodin-Dorohusk. The first one constitutes an element of the E30 corridor. The second one is a wide-gauge railway line administered by PKP LHS<sup>3</sup>. The third one in turn provides the possibility of going along the railway line no. 7 via Lublin to the E20 corridor.

Main players in developing rail connection China — EU are the regional Chinese governments of province and cities. They are supporting rail connection with subsidies and without them network rail lines access with Europe are impossibly so rapidly build. However, every provinces are competing each other for the freight another provinces and cities.

Geographical structure of transit rail China — EU by using transport corridor depends on political cooperation and stakeholders consensus at every parts routes as well as actively engagement many state's institution. From the point of view: cost, time and punctuality are so call soft factors. They included business standards, simple custom procedures and formal achievements, which have been worked in multiply agreement.

## **5. Benefits for the EU and Central Europe in rail transport trade turnover**

In 2016, add value for the EU members which is earned through rail freight connection China — EU achieved about \$0,26 billion dollars. The share of custom tax counting 72%, logistic services with the freight distribution on the EU market 17%, and income for accessing rail infrastructure and rolling stock 5 percent. In the next few years, it can be expected high dynamic of turnover. As a result in 2020 the global add value at the EU market would jump to \$1 billion dollar. The great share of the incomes benefit the EU states, where the freight train from China ended and started in Germany, France, and Holland.

<sup>3</sup>PKP LHS (Linia Hutnicza Szerokotorowa) — The LHS Line (so-called the broad track) is the longest on the territory of Poland broad gauge railway line (track gauge of 1520 mm) designed for freight transport. It is also the farthest west broad-gauge line in Europe. It connects the Polish-Ukrainian railway crossing Hrubieszów/Izów with Silesia, and ends in Sławków in Dąbrowski Basin (25 km from Katowice).

Poland as the transit country has a chance of competition on forwards services. But the great part of this services belonging to global enterprises such DB Schenker or DHL. The function of intermodal connection would be earned by Chinese transport enterprises.

The growth of containers transport means more yield for transport and logistic sectors, while value add growth more profit from custom tax.

From the Chinese point of view, Poland is attractive for logistic services with Central Europe, Scandinavia, and the south and eastern German region. Actually, the Łódź main hub centre in Poland, where is serviced 25% container train units China — UE, and value about 7% of goods.

There are unloading terminal in Małaszewicze at the border with Belarus. Actually, Russia would like change rail route on the part of Belarus territory into their two sea port Sankt Petersburg and Kaliningrad (Kapczyńska, 2018, p. 6).

The logistic service hub for Germany, Benelux and North France are in Duisburg using China — EU rail route and serviced Germany, Benelux countries, and Northern France territories. It's industrial European district, which has been used for China — EU rail route, unloading and loading Duisburg capacity assessed for 25% train units, which value of all freights to Europe about 75 per cent (Jakóbowski, Popławski, Kaczmarek, 2018, p. 10).

In the last years, rail route ties China — EU rapidly increased as a result of subsidies Chinese provinces which would like desired to grew up logistic capacity. They depend on subsidies to the railway's operators which belong to province and cities governs. The assessment of whole annual subsidies is \$300 m dollar. Subsidies and competitiveness between provinces made transport prices instability, spoiling logistic chains, and very often low level of fulfilling train capacity (Jakóbowski, et al., 2018, p. 12).

The main challenge for developing trains at the route China — Europe, Europe — China are their balance. The share of rail transport from Europe to China is about one third all train unit in both direction. The cost of empty train units transport equilibrium has been taken by Chinese provinces, that increased their boldness for subsidies. For these reasons to find customers which be used for regular transport rail are highly situated at the list of priorities Chinese provinces First of all, its depends on goods exporting from Europe to China. Paradox ally, the transport cost of empty trains are taken up by Chinese provinces, and they have to be interested for supporting export from Europe.

The main products, which have an opportunity to balance of payments trade turnover Europe — China are foodstuffs. Actually, the European export of food to China are forbidden, while existence of Russian's embargo. The foodstuffs transport are obliged to biggest punctuality, as well as exaltation of custom procedures. But the rail connection can be able for European foodstuffs producers, chance for achievement at the Chinese market's challenges over world's competitors.

Actually, the great number of containers are transported through Kazakhstan, at the beginning Chinese-Kazakhs cross border Alaszankau/Dostyk. All three corridors are connected at Ural nearby Jekatenrynborg city and then by Russian and Belarus

territories. From the point of view Chinese provinces, subsidises EU rail connection, the Tran Siberian corridors, actually are the cheapest, fastest and safety. The cost/profit relation are most required effects. The routes, which are running through Russia, got the biggest support from the Chinese side. From the Beijing political point of view, the rail route running through Russia are important, while in long term potentially reducing, Russian disdain against Chinese project Belt Road Initiative. It's excluded Ukraine.

The potentially alternative for land used Trans-Siberian corridors are Trans-Caspian land-sea corridors. There are running through Caspian sea, Caucasus and Black sea (Miecznikowski, & Radzikowski, 2017, pp. 127–130).

The transport of containers through these corridors are more complicated while requiring same regulations, technical standards and luck of stabilize tariffs. The main stakeholders on development Caspian corridors are Kazakhstan and Azerbaijan. The next stakeholder is Iran, which role is getting up after enclosed U.S. sanctions but isn't excluded for building Caspian corridor.

## Conclusion

More often, the localization of factory in central and Western part of China by global concerns are suitable for rail transport direct connection with Europe. With the proper organization and appropriate freight turnover are possible to reach cost competitiveness rail transport to maritime in cost and time applied capital.

In case of direct connection of enterprises China — Europe, the firms take up train units for transport their freight. It's bring them benefits depending on time and cost for: motor sector, electronic sector, and high value sectors pharmaceutical and chemical.

Rail container transport are very popular for clothing, foodstuff, and other seasonal products.

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## **Wzmocnienie znaczenia trasy kolejowej UE — Chiny w ramach inicjatywy pasa i drogi a wojna handlowa USA z Chinami i sankcje wobec Iranu**

### **Streszczenie**

Rozmowy o taryfach celnych między USA a Chinami grożą rozwojem wojny handlowej. Ameryka opublikowała listę około 1300 chińskich towarów proponowanych do obłożenia taryfą 25-procentową. Z kolei Chiny stworzyły własną listę obejmującą 1300 kategorii towarów handlowych. Prezydent Trump wycofuje USA z umowy nuklearnej z Iranem, wprowadzając tym samym sankcje handlowe wobec tego kraju. Oba te akty mają tendencję do stymulowania regionalnego handlu Chin z Afryką i Europą za pośrednictwem inicjatywy pasa i drogi (Belt Road Initiative, BRI). UE jest głównym podmiotem handlującym z Chinami. Transport kolejowy odgrywa główną rolę w obrotach handlowych. W rzeczywistości największą szansą dla transportu kolejowego na rynku przewozów towarowych jest jego pozycja w środku pomiędzy powolnym i tanim transportem morskim a szybkim i kosztownym transportem lotniczym. Główni gracze w rozwijaniu połączenia kolejowego Chiny — UE to regionalne chińskie rządy i miasta.

**Słowa kluczowe:** interesariusze, handlowa wojna celna, sankcje, inicjatywa pasa i drogi, nowy szlak jedwabny.