

# Naples Shipping Week 2018

## New Silk Road; Opportunities & Implications for the Mediterranean



# Introduction

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Co-author of an article in the Italian Maritime Economy review (SRM) on implications of BRI on the European Port System. At Ecorys we have advised the Dutch Ministry of Foreign Affairs on (back then OBOR) and we still follow the topic very closely.



# Topics for today

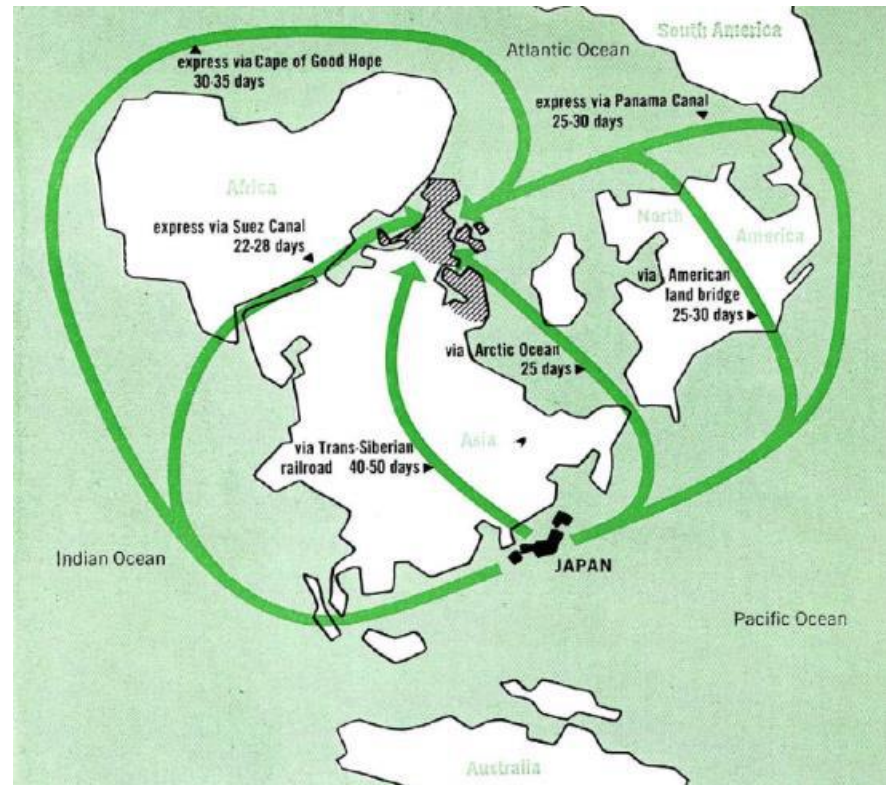
- Background to the topic
- BRI from a logistics point of view
- Changing port landscape in Europe
- Opportunities for Italy and the Mediterranean
- Risks involved in the project
- Concluding remarks

# The Silk Road is not new

## The Silk Road of Marco Polo



Land based rail transport Japan – Rotterdam (1968) , train 70% slower but 20% cheaper than ocean freight...



# After the dissolution of the USSR the train loses it's pace

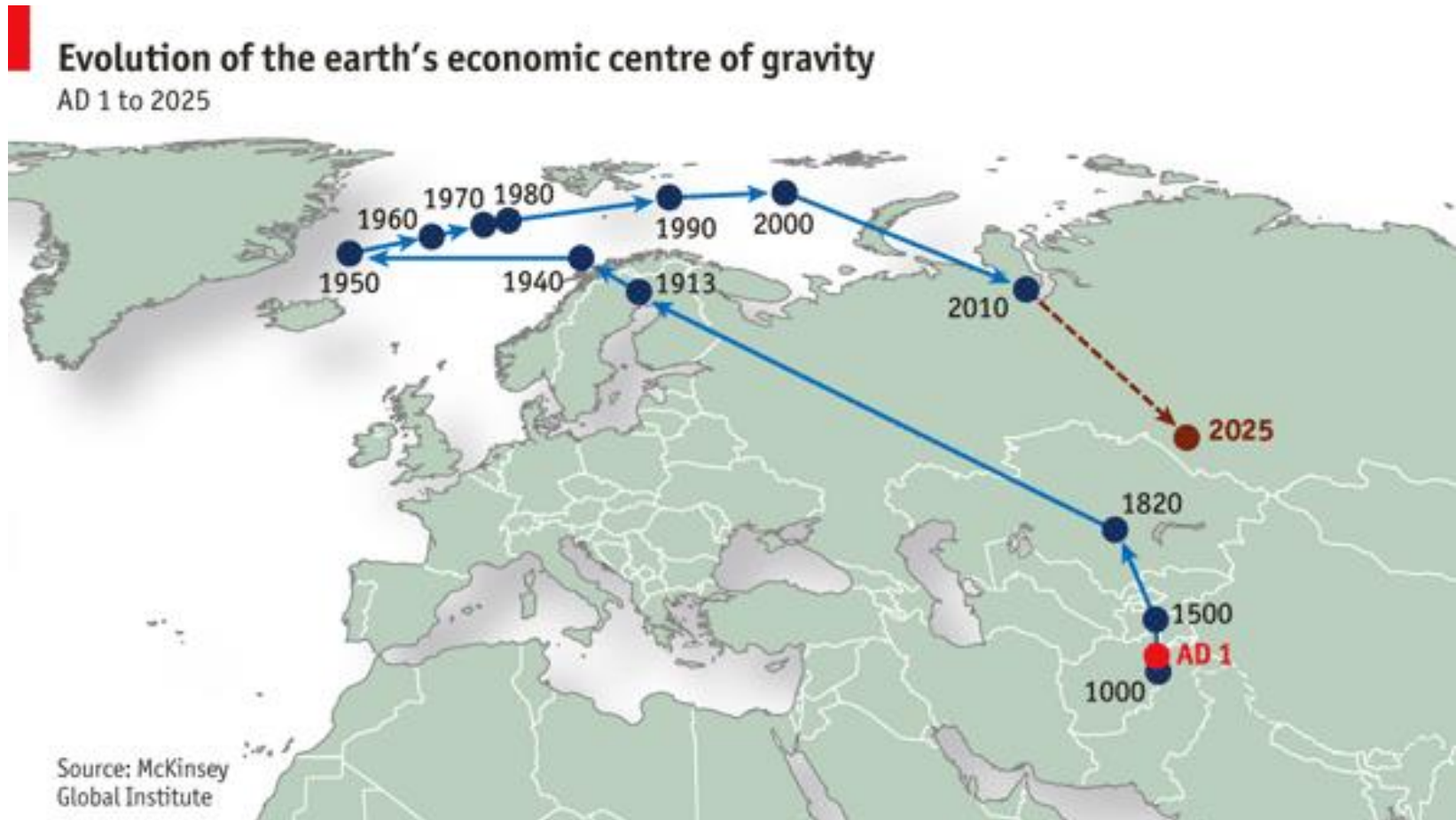
- Japan kept investing in the route up until the 1997 Asia Financial Crisis
- By that time ocean freight was both faster and cheaper:  
1997 cost per TEU China-Europe per ocean freight was USD 1200 and via rail USD 3500
- Main issues at that time: failing rail infrastructure (neglected maintenance, procedures (now independent states along the route), and (just as in the present day) the gauge problem



# Fast forward to 2013: "Promote People-to-People Friendship and Create a Better Future" (launch of the New Silk Road "OBOR")



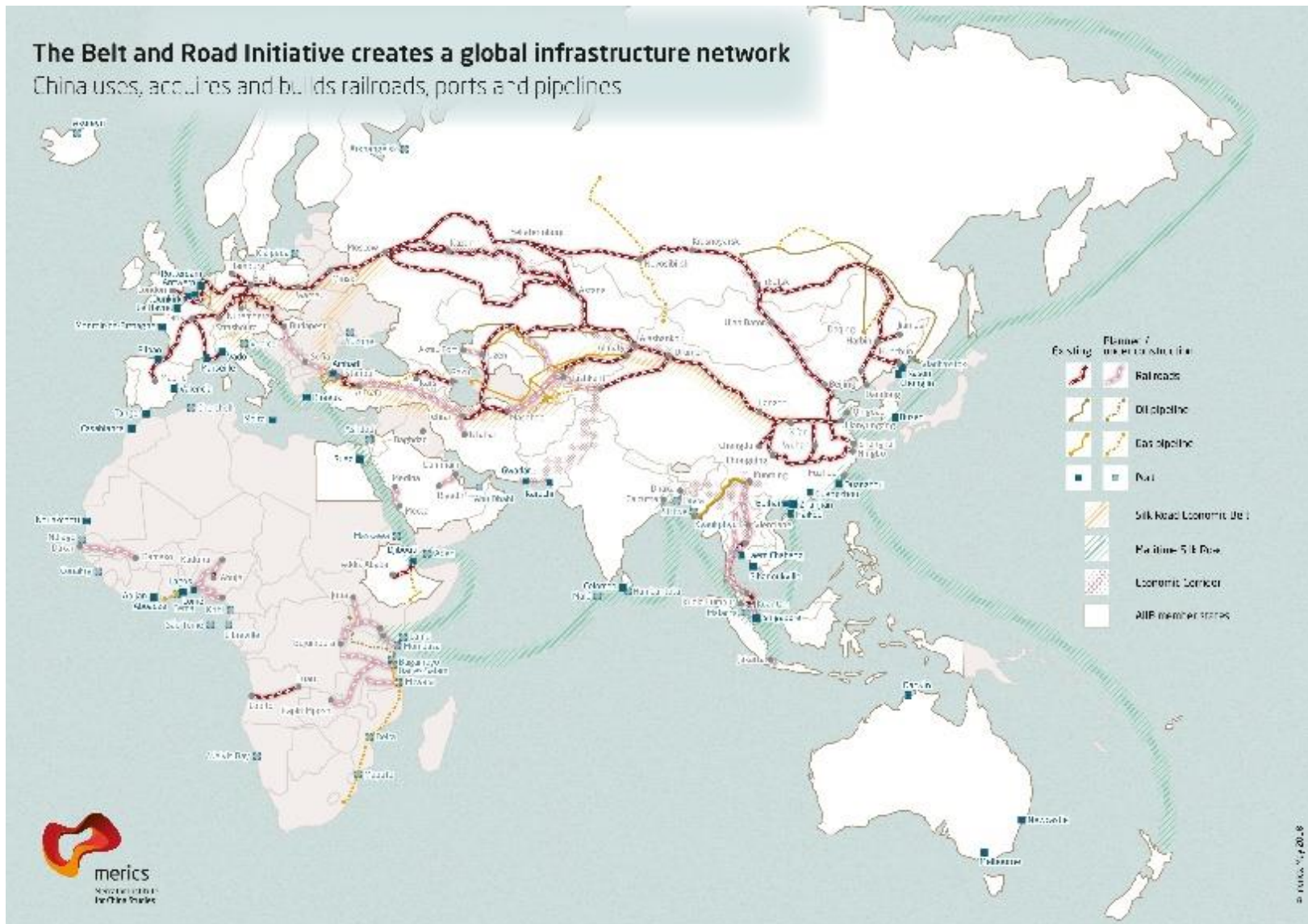
# The shifting economic core



# A closer look at the different projects

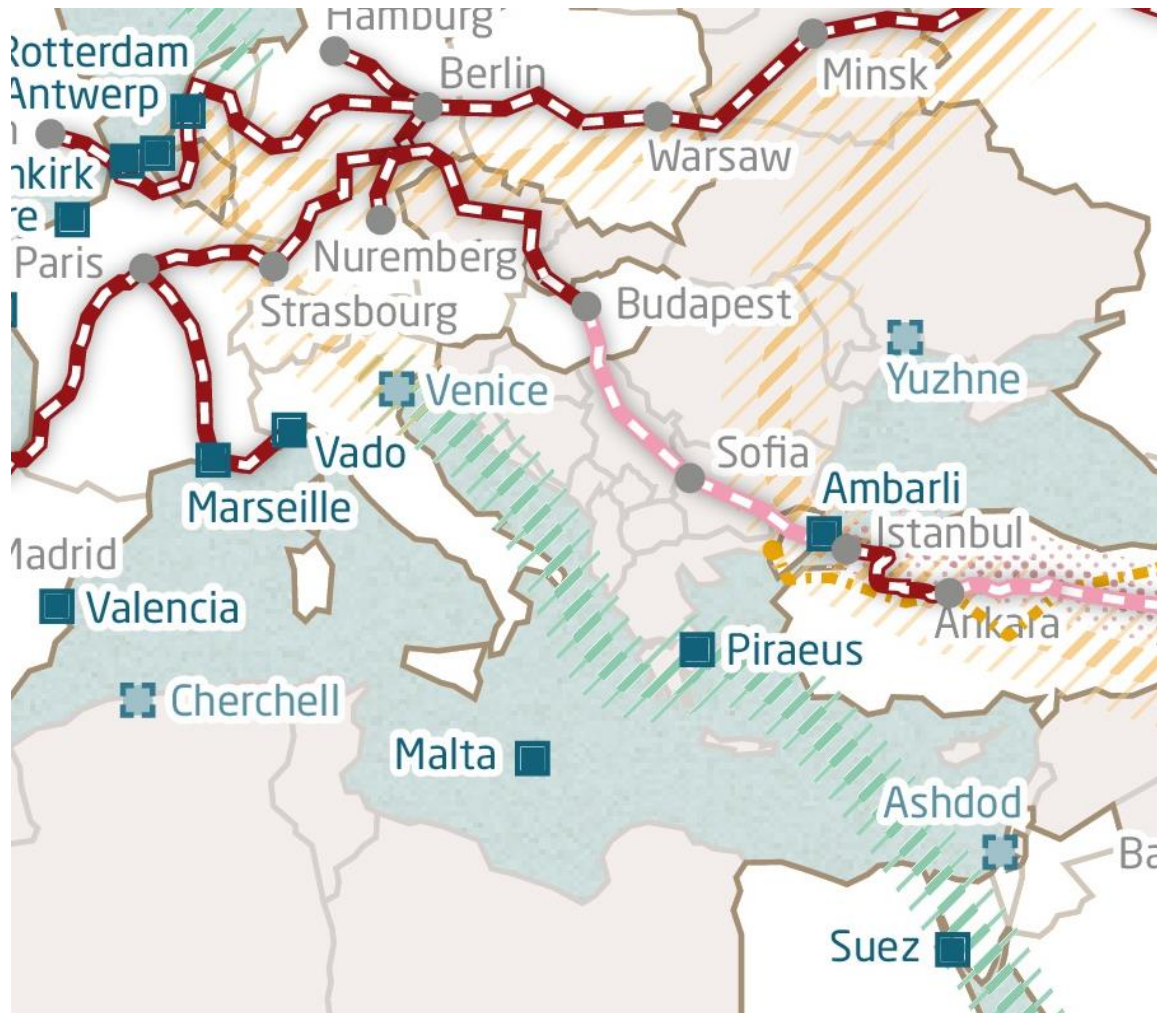
The Belt and Road Initiative creates a global infrastructure network

China uses, acquires and builds railroads, ports and pipelines



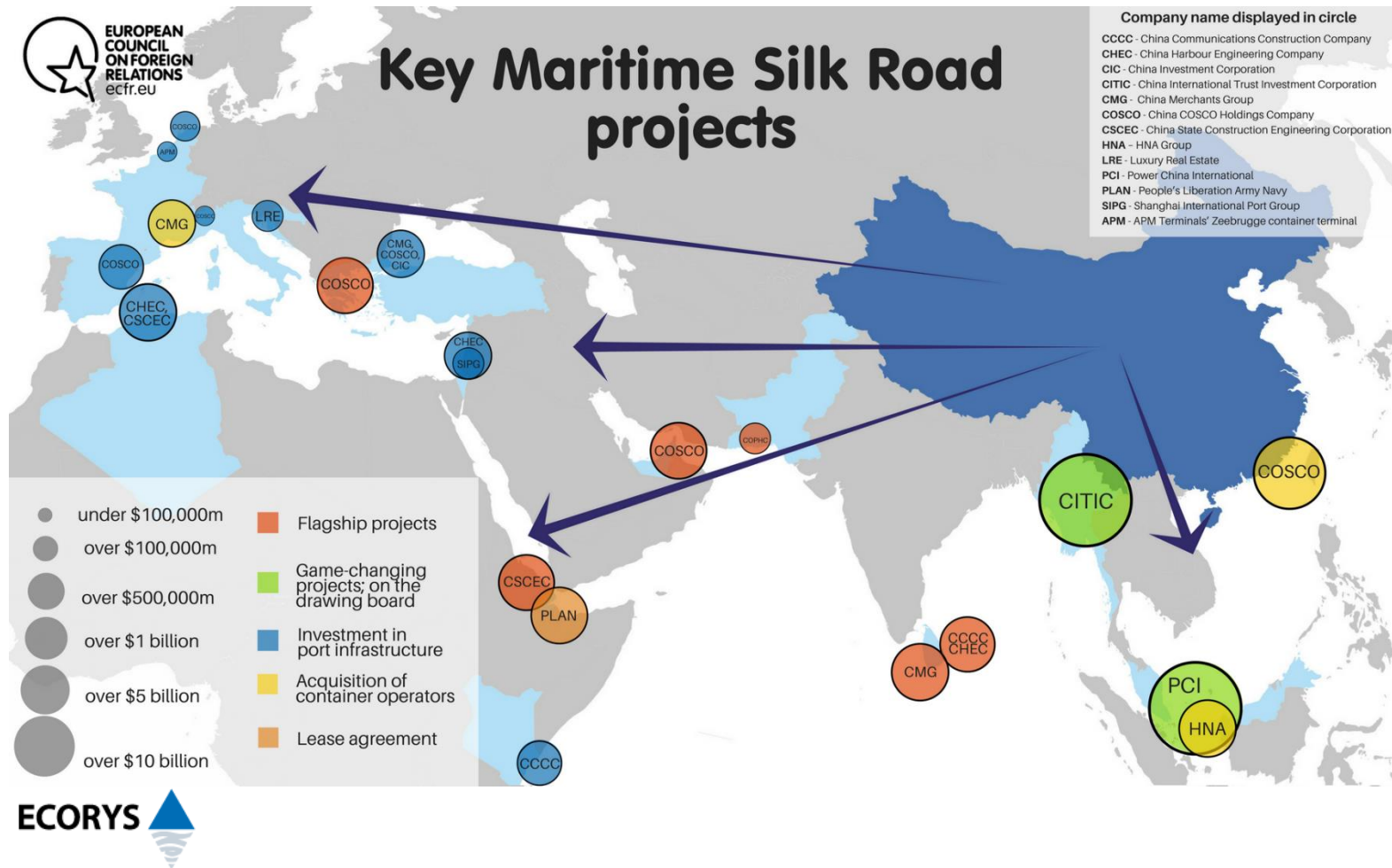


# Focus on the MENA region

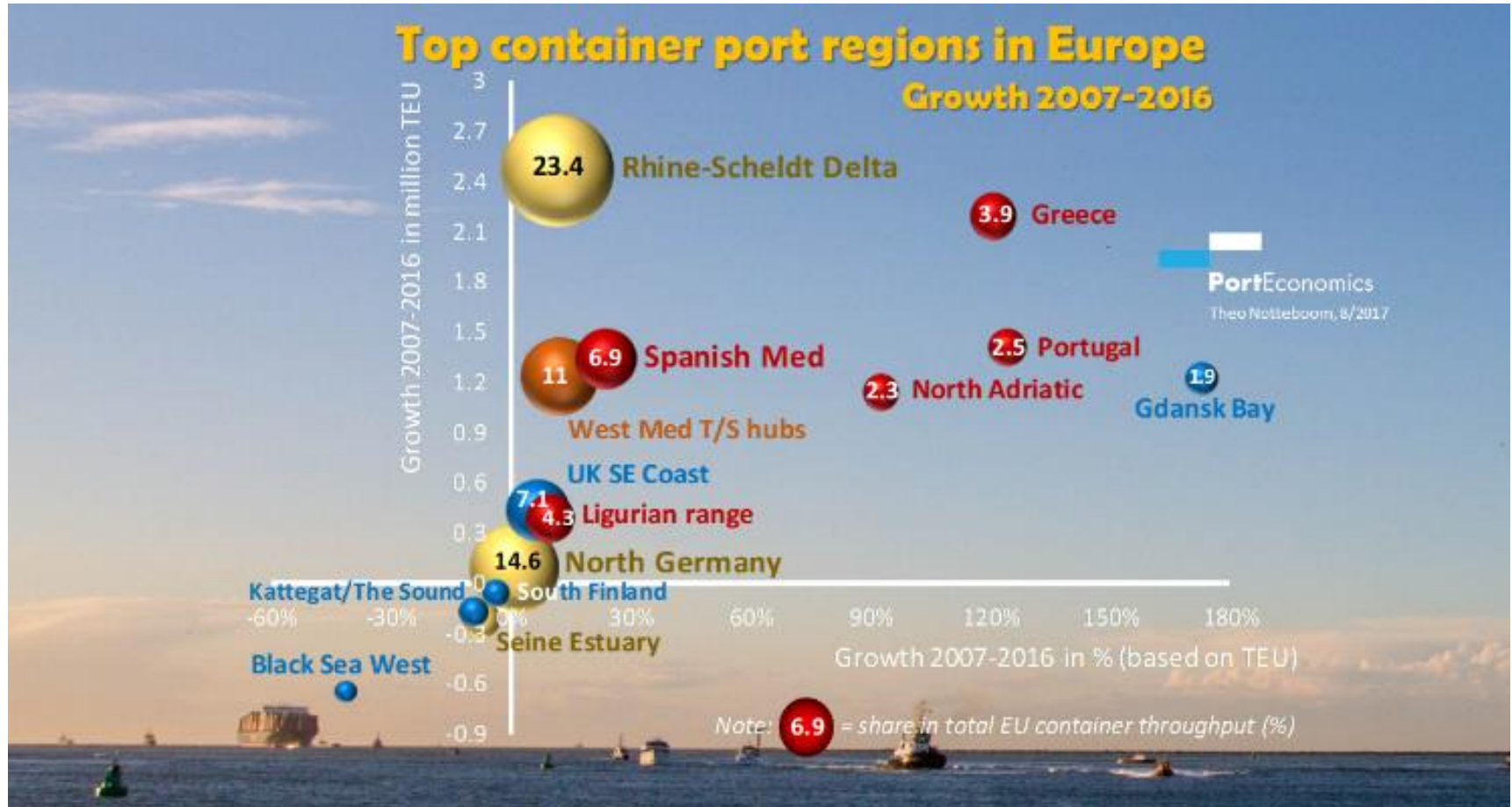


# Chinese port investment in Europe

The 2013 Piraeus investment served as catalyst for a large stream of Chinese investments in the European port system:



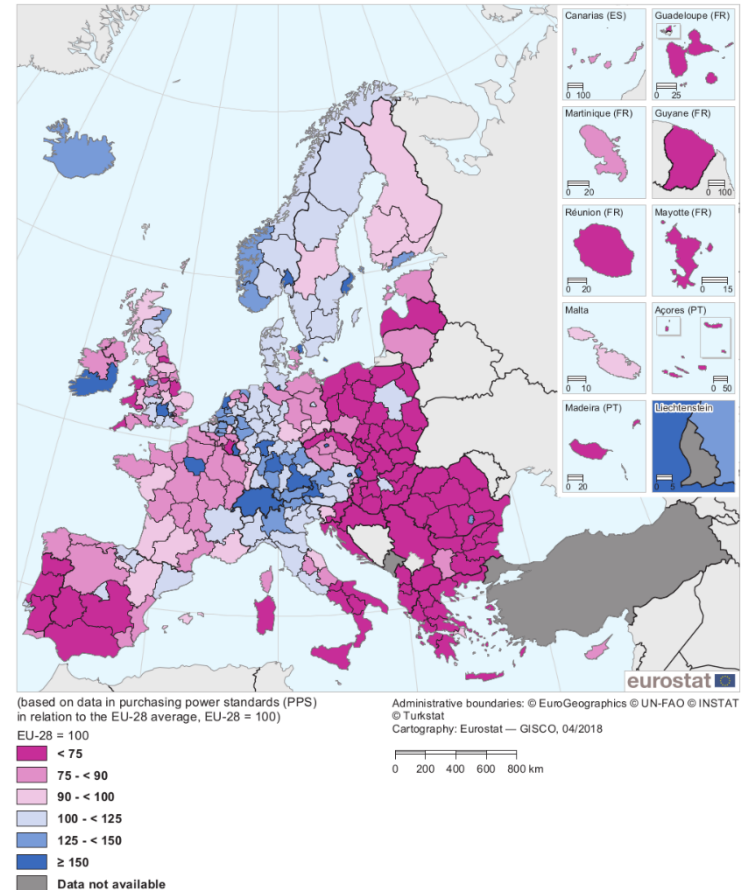
# The 2007-2016 balance of port regions



# The European perspective

- Still the main aim is reaching customers along the Rhine valley and the Southside of the Alps
- New locations in Central and Eastern Europe emerge; new attractive base of customers (and logistics location)
- Given these circumstances the North (Sea) –South (Med) competition is still on!

Gross domestic product (GDP) per inhabitant, by NUTS 2 regions, 2016  
(based on data in purchasing power standards (PPS) in relation to the EU-28 average, EU-28 = 100)



Note: Norway, 2015. Former Yugoslav Republic of Macedonia and Albania: 2014. Switzerland and Serbia: national data. Switzerland: provisional.  
Source: Eurostat (online data codes: nama\_10r\_2gdp, nama\_10\_gdp, nama\_10r\_3popgdp and nama\_10\_pe)



# Key elements in the European port competition

- Maritime side: ports need to adapt to (still) growing ship sizes .  
23.000 TEU ships from MSC to enter service next year
- Land side: pressure on hinterland connections, need for sustainable & efficient hinterland transport. Brenner Basetunnel as new connection?



# The current value proposition of railfreight China-Europe

Modality	Transport Time	Relative Cost
Ocean freight China-Europe (=basecase)	+/- 35 days	100 (=basecase)
Rail China-Europe	14-16 days	200-300
Air freight China-Europe	4 days	1000-1500

- This implies that goods that have a high enough value density and are somehow time sensitive can be an attractive segment for rail transport.
- Also from a working capital / supply chain finance point of view choosing a different modality can be interesting!

# Cost of labor developments in China and costs of inland logistics very relevant

- Within China labor costs have risen, especially in coastal regions (Shanghai, Guangzhou, Shenzhen etc.).
- Average salary 2017:
  - Shanghai province: 9,802 yuan (\$1,420)
  - Chongqing: 6,971 yuan (\$1,010)
  - (Comparison: Italy €2400 (~\$2,800))
- Move of production more inland China: further away from seaports. Cost of transport Chongqing-Shenzhen around USD 850 per TEU
- Given shift of Economic core of Europe to the east train becomes a viable alternative to ocean freight

# Main trade partners of Italy

Export in Billion EUR

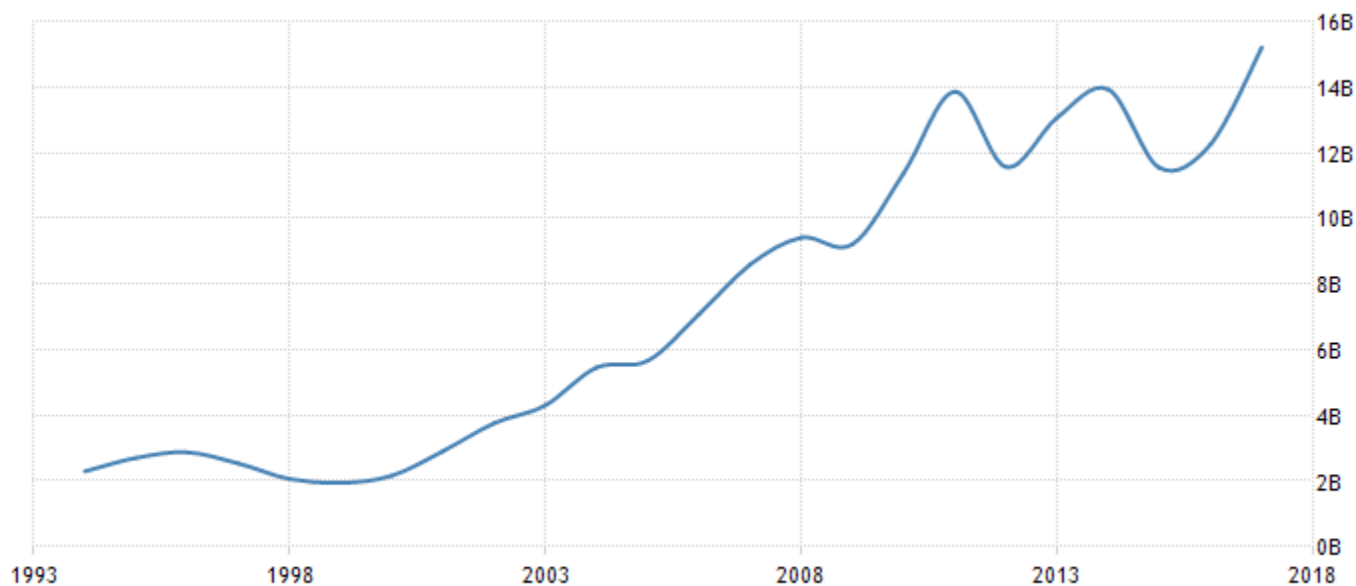
Rank ♦	Country ♦	Export (2017) ♦
1.	 Germany	55.8
2.	 France	46.1
3.	 United States	40.5
4.	 Spain	23.2
5.	 United Kingdom	23.1
6.	 Switzerland	20.6
7.	 Belgium	13.5
8.	 China	13.5
9.	 Poland	12.6
10.	 Netherlands	10.5

Import in Billion EUR

Rank ♦	Country ♦	Import (2017) ♦
1.	 Germany	65.3
2.	 France	35.2
3.	 China	28.4
4.	 Netherlands	22.5
5.	 Spain	21.1
6.	 Belgium	18
7.	 United States	15
8.	 Russia	12.3
9.	 United Kingdom	11.4
10.	 Switzerland	11.1



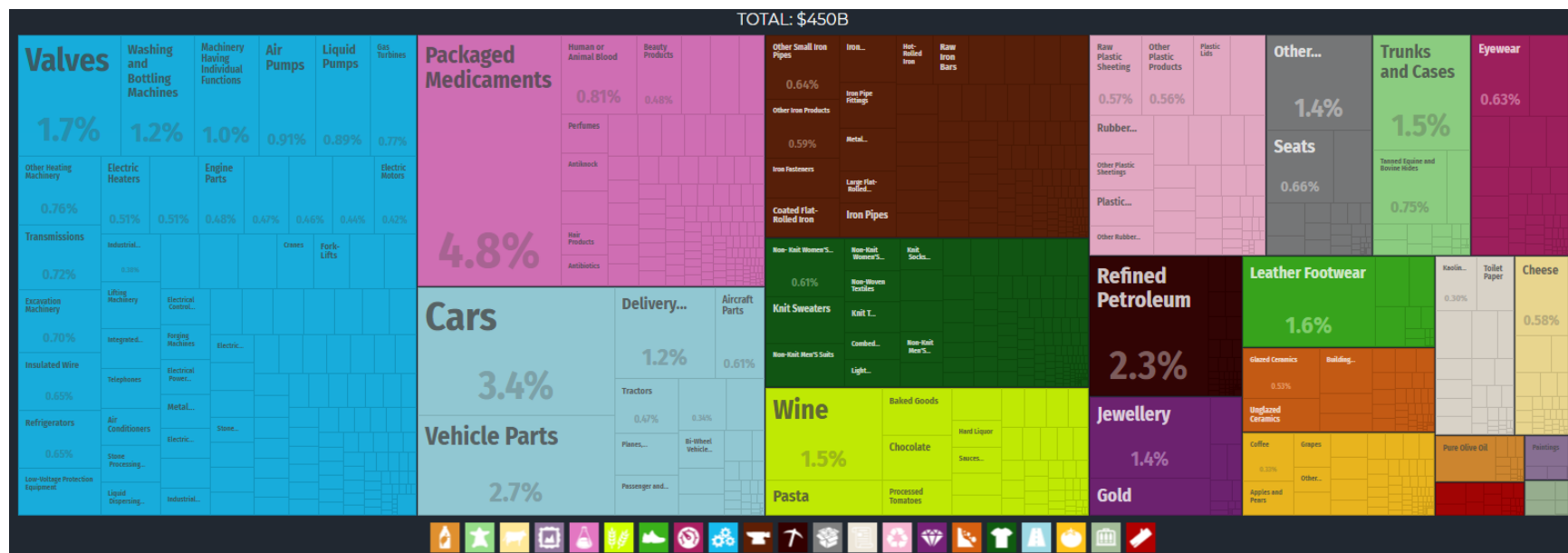
# Steady growth of Italian exports to China



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# Italian exports: how are they built up?

Link with China and the BRI initiative?



Source: MIT OEC (2018, data for 2017)

# Cooperation on Blue Economy: link with tourism?

## FINCANTIERI EXTENDS THE COOPERATION WITH CHINA

The agreement with the state-owned giant firm CSSC is expanded to all segments of merchant shipbuilding  
28 AUGUST 2018



## LAUNCH OF THE 2018 EU-CHINA TOURISM YEAR

Theme: EU-China Cooperation

Location: Venice

09:15 - 19 JAN 2018



# Joint development of energy projects

upstream

## Eni, CNPC pen global energy pact



Italian and Chinese giants to work together on upstream and downstream projects, including LNG

Italian major Eni and China National Petroleum Corporation (CNPC) are linking up to jointly pursue energy projects in China and elsewhere. The pair hatched a co-operation agreement on Wednesday





# Strategic shift of container flows

- We see the integration of (Chinese) state owned shipping conglomerates with state owned terminal operating companies
- Will we see Chinese controlled chains? And how will the relationship between business economics and strategic interests look like?
- More investments by Chinese firms expected: both in terminals (because of opportunities) as in (container) shipping (to become more competitive)

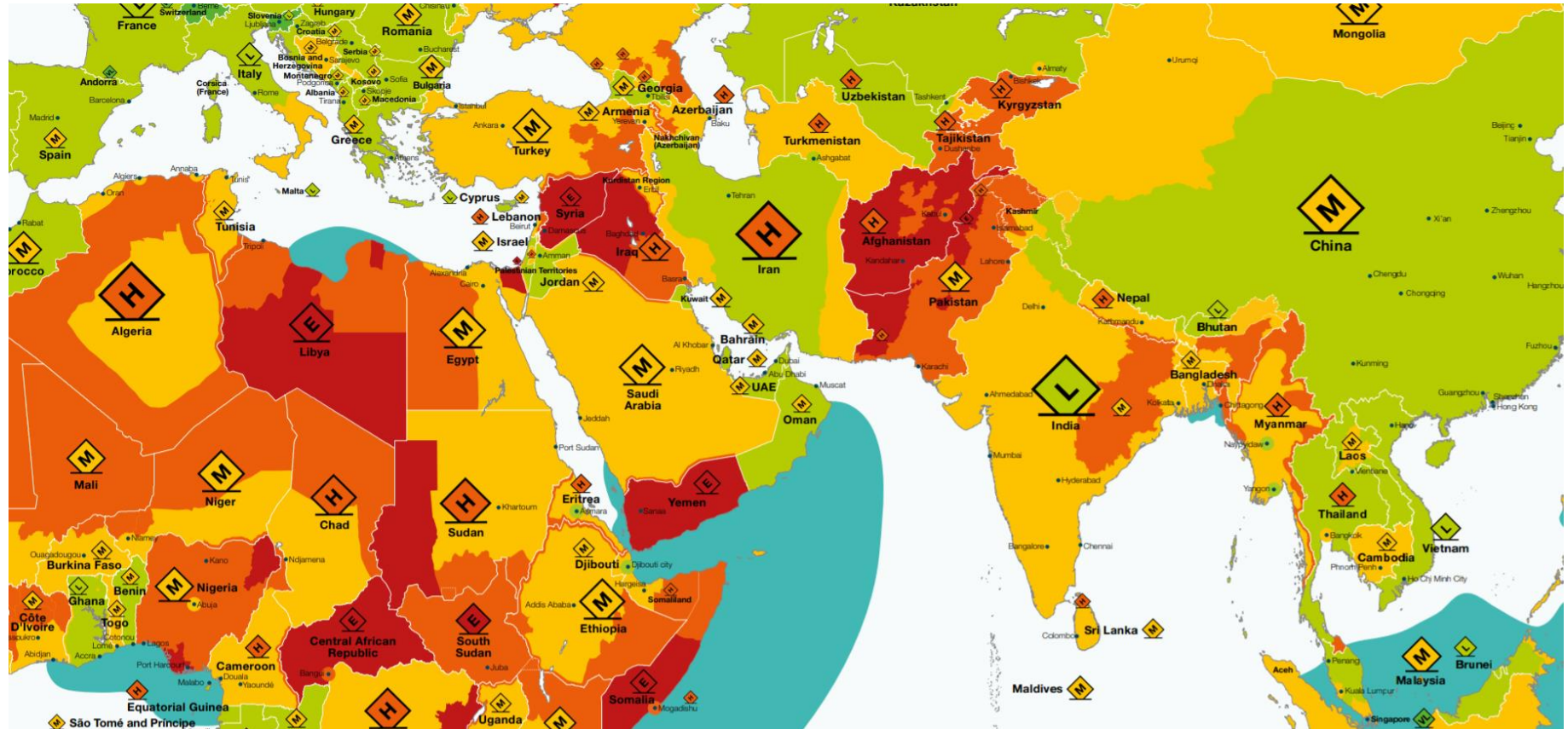


# Some experiences from BRI projects

- Piraeus as example of ambitions and actual growth; number 93 worldwide in 2010, 44 in 2015 and 38 in 2017. Ambition to grow from 4.1 mln TEU to 10 mln TEU.
- Projects financed by China are often constructed by Chinese firms (based on Chinese engineering)
- Bail out of debt laden projects: 99 year lease of Sri Lanka's Hambantota Port project to China
- Tendering of projects not up to European standards: Budapest-Beograd railway as example of project with limited public procurement

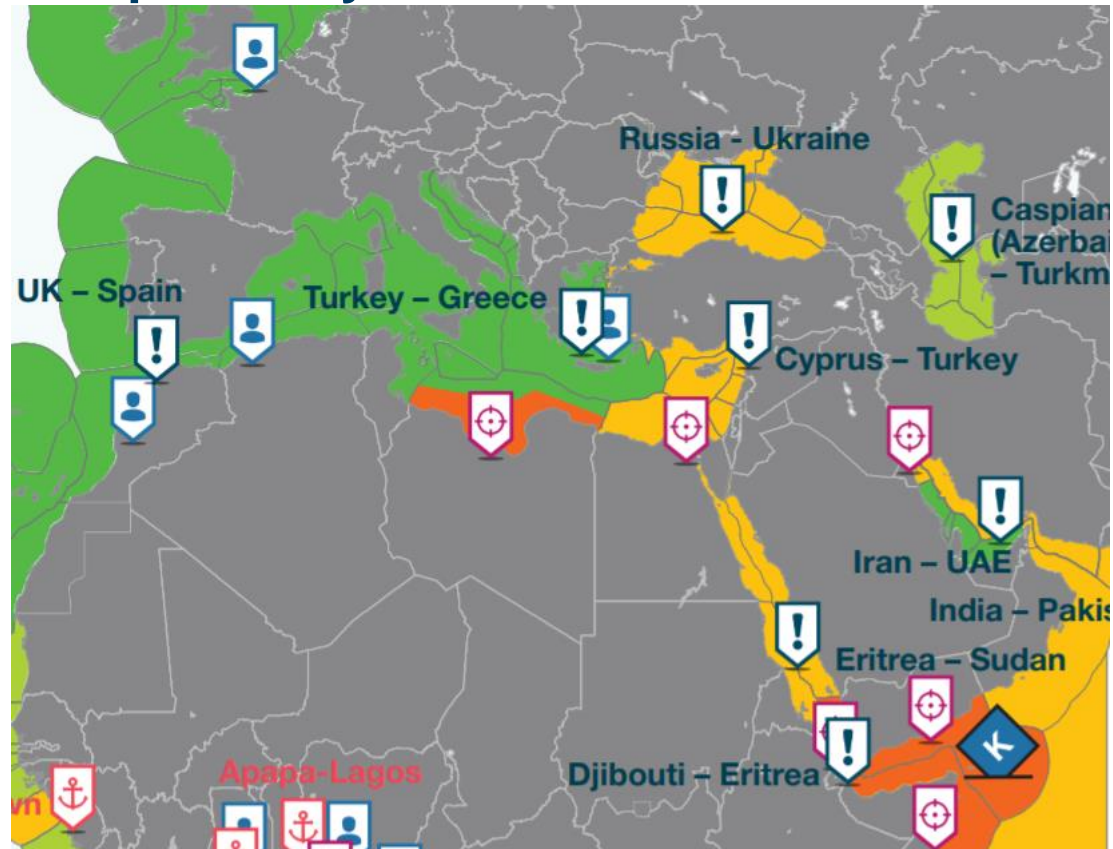
# Challenges of a destabilizing world

## 2018 Global Risk Map by Control Risks



# Maritime risks for the MENA region

## Maritime Risk Map 2018 by Control Risks



### Maritime risks

(Piracy, anchorage crime, conflict, territorial disputes, terrorism and militancy)



- Offshore kidnapping risk areas
- Top anchorage crime risk areas
- Key maritime boundary disputes
- Stowaways: countries of embarkation
- Maritime terrorism and militancy risk areas



# Shifting balances with Northern Sea Route?

## Will the balance shift North again when the route opens?

- Cosco launched 'the Polar Silk Road' claiming saving up to 20 days of sailing time compared to Suez
- Maersk: series of seven 4000 TEU ships ordered that can use the route
- Big question; when will this route be commercially viable (and reliable)?



# Concluding remarks

- Numerous maritime sectors present in Italy and China offer possibilities for cooperation; but be aware of importance of mutual benefits
- Blue economy is becoming more and more a strategic sector for the Chinese economy: export possibilities for Italian expertise
- Stability in the MENA region very important for future success
- Long term development to be debated: Northern Sea Route as game changer?

# Questions?

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