The New Silk Route
Opportunities for the European and Baltic region

Indra Vonck, Deloitte Port Services, Transport Week 2018
No nation was ever ruined by trade

Benjamin Franklin
Impressive numbers...

2 routes
6 main corridors
21 trillion in connected GDP
65 countries involved
900 billion in investment
900 infrastructure projects
The similarities to the old “Silk Route” are abundant

- **The traditional Silk Route was comprised of several smaller routes** that connected various parts of China and the Middle East to Europe

- No merchant travelled the entire route alone but used **regional trade**

- Multiple **risks and dangers** across the roads

- The road transferred **both goods and culture**
The five key goals of the Belt and Road Initiative generate 3 main opportunities for the European and Baltic logistics sector.

- Policy coordination
- Facilities connectivity
- Unimpeded trade
- Financial connectivity
- People-to-people bonds

Opportunities:

- Source of capital
- Reduction of transport costs
- Opening of new markets
The influx of capital is unlike any we have seen up to date

- Primarily in the form of equity finance for acquisition of shares in, ports, railway organisations and airports.
- 97% brownfield (greenfield tend to require extensive debt finance)
- For EU projects, loans tend to be provided by EU-based financial institutions.
- Structuring of finances is through a variety of financial institutions (big 4 commercial bank, China development bank, export import bank of china, silk road fund, Asia investment bank, New development bank)

Source: Thompson Reuters
Recent investments are concentrated in the high tech and services sector, and take place in Germany, France and the UK, and South-West Europe.

FDI industry evolution

- Real estate and hospitality
- Financial and business services
- Automotive
- Electronics
- Agriculture and food
- Basic materials
- Metals and minerals
- Energy
- Utilities transport and infrastructure
- Industrial machinery and equipment
- ICT
- Entertainment
- Consumer products and services
- Healths and Biotech
- Aviation
- Decline
- Moderate growth (0-150%)
- High growth (>150%)

Growth 2016 vs annual average 2013-2015

Chinese FDI across Europe

Source: Thompson Reuters
The increased transport infrastructure will decrease transport costs and lead times

- Trade gains can be achieved by transportation improvement and free trade agreements
- Still a story of rail vs ship
- Zhejiang - London in 18 days vs 30+ by sea
- Cheaper than airfreight and quicker than by sea
- Not for all cargo segments, expensive cargo by air, cheap cargo by sea
- It is not “just” the one belt one road, improved EU infrastructure will also play a role

Source: Economist
Note: percentages are part of global

China–Europe rail volume (th tonnes)

- 2013
  - To Europe: 57
  - To China: 57
  - Total: 311

- 2016
  - To Europe: 200
  - To China: 111

By industry (2016)

- Raw materials: 168
- Machinery parts: 82
- Automotive: 75
- High Tech: 61
- Consumer goods: 50
- Fashion: 30
- Capital equipment: 25
- Chemicals: 15
The opening up of new markets will generate an increased opportunity for business development

- 65 countries jointly account for 38.5% of land area, 62.3% of population, 30.0% of GDP and 24.0% household consumption
- Forecasts show that Asia-Europe trade flows will double by 2030 with 43% rail freight increase in the Baltic region and a 140% maritime increase
- More than China, the East-West corridor gives direct connection to growth economies like Russia, Kazakhstan and Mongolia with a potential GDP of 250 billion
New corridors could shift established transport patterns and harmonize trans European traffic flows

- Closer to the beginning of its journey than its end, it is hard to quantify its impact on global trade
- 30 percent growth in the number of freight trains in 2018
- Presently, maritime transport is still more competitive in cost and capacity in Baltic-Chinese mutual relations, but not in the delivery lead time
- The current existing hubs will not disappear, but will be supplemented by growth in the Baltic region and in southeast Europe
- The largest potential is present for inland logistics developments

Source: China daily
As with any large scale programme there are challenges linked to partaking and investing

**Credit Risk**
- The lack of commercial imperatives behind [BRI] projects means that it is highly uncertain whether future project returns will be sufficient to fully cover repayments to Chinese creditors

**Political Risk**
- Presence of political uncertainty, trade embargos, infrastructure impediment and corruption, especially amongst the developing nations
- Chinese dominance in rail transport, or control of the entire logistics chain, may significantly increase its market power in respect of EU trade

**Social Risk**
- As China shifts its overcapacity to the countries along the Belt and Road, there could be a reduction in jobs, and the closing down of plants and factories in affected countries

**Sustainable Risk**
- Infrastructure projects may be implemented because Chinese funding is available, with little focus on the demand for, or sustainability of, the services that they are intended to support
Main takeaways

• Even though the true impact and scope of The New Silk Route remains unclear, the potential for the logistics sector is present

• Three main opportunities exist for the European and Baltic logistics sector
  1. Highest inflow of capital ever recorded
  2. If you get infrastructure right, it does have a genuine multiplier effect
  3. Over half of the population will be accessible via the trade network

• The new rail and port developments are not expected to displace current “Asia centers” but rather complement them connecting the 3 circle areas of the New Silk Route

• The main risks are political, social, credit and sustainable, but most risks can be managed by smart investment analysis and proactive risk management
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