Chapter 6
The Impact of the BRI on European Trade

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Since its announcement in 2013, the BRI has become the core of China's economic diplomacy and has since then exerted a deep influence on most of the rest of the world's diplomatic activities as well. Although the Chinese government officially prefers to call it an Initiative, inspired by a spirit of broad inclusiveness of many other countries all over the world, it should also in fact be regarded as the country's new opening-up strategy, developed in response to changing domestic and international circumstances.

The Initiative aims at integrating China into the global economy along much deeper avenues – far beyond trade and investment flows – than ever before. Along with the flourishing of bilateral agreements signed by the Chinese government with individual partner countries since the 1990s (now up to 202 international investment agreements and 14 free trade agreements), aimed at reducing institutional barriers to trade and investment flows, the BRI intends to build a great Eurasian continent along lines that are very different from any other traditional paradigm of regional integration. While the world has so far experienced rule-based regional integration arrangements, the Chinese way to regional integration tends to be less rule-based and more coalition-based along country-specific interests. As such, the BRI will have profound implications on international economic and political relations for the rest of the world and more specifically for the EU, as the latter is the ultimate destination of the vast network of land routes and sea-lanes starting from various Chinese provinces.

Europe is the end-point of the New Silk Roads, both by land and by sea. It is the ultimate geographic destination and political partner in the BRI. The BRI aims at improving connectivity among a number of previously separated regions – Europe, post-Soviet space, Central, Eastern and Southern Asia, the Middle East – which are supposed to be integrated into a "Greater Eurasia", part of a long-term global strategy to build a centre of geopolitical stability and development. Therefore, the major opportunity for the EU is to become connected to the largest world future emerging area. The initiative also aims at easing economic and political relations between two major economic powers, at a time when geopolitical tensions in various parts of Asia and policy uncertainties among major world powers, namely the United States, pose a serious risk to multilateral cooperation. However, the major risk is to get stacked in between two big rivals (US and China), in case their relations get more and more confrontational. Even before the emergence of the BRI, the EU and China already held regular dialogues on railway, maritime, aviation, customs facilitation, as well as other issues related to connectivity, through the EU-China 2020 strategic Agenda for Cooperation signed in 2013. But not all European countries are equally important to the BRI. Within Europe, BRI projects are in fact concentrated in two particular regions: Central and Eastern Europe and the European Mediterranean countries. This creates internal competition to get the most out of the BRI, namely with Germany (together with the Netherlands and Denmark) being concerned about the Chinese 'preference' for Southern-EU countries.

The BRI will likely contribute to economic development and regional stability in Eurasia from which both China and the EU could benefit in terms of new markets and energy security. Therefore, Europe should consider the Initiative as a much broader vision than the simple improvement of physical and digital connectivity. To this aim, the following policy recommendations could be drawn for the EU:

- The broad scope of the BRI deserves a much higher political level dialogue between the EU and China, which is now absent in Europe. The EU-China Connectivity Platform is the main institutional arrangement where dialogues currently occur between the EU and China about how to coordinate large and long-term infrastructure projects, so that the Trans-European Transport Network (TEN-T) develops in a way consistent with the aims of the BRI to reach Europe from Asia. Since the early 1990s, TEN-T has been the infrastructure policy at the Community level meant to support the functioning of the internal market through continuous and efficient networks in the fields of transport, energy and telecommunications. While China is very active in organizing summits and fora among the countries along the Belt and Road, the risk for Europe is to lose part of the decision-making power about its own internal goals and about its relations with neighbouring countries. Moreover, paving the way to improved connectivity between the EU and China without progress on institutional barriers to trade that still exist between the two parties could exacerbate the currently large differences in bilateral market access.
- The EU has an historical responsibility to open a high-level dialogue on current competing initiatives for regional integration in Easter Europe and Central Asia. In fact, the BRI is a regional integration effort alternative to the Eurasian Economic Union (EEU) and an important absence in the BRI is the lack of relationships

between the EEU and the EU. The BRI could open new opportunities for the EU to pursue its geostrategic ambitions in Central Asia by deepening the EU-China strategic partnership through cooperation in security fields, possibly paving the way to EU-Russia reconciliation. At the same time China, Russia, Ukraine and the EU have some common economic and security interests in Eurasia that they could follow together in spite of different approaches. Under these conditions, it is better for European countries to try to find a common language with former Soviet republics and China than to passively observe how the existing order is being replaced by something unfamiliar to European values and interests.

- Similarly, the EU should address the issue of the (former 16) now 17+1 mechanism as a source of possible inconsistencies for the European integration process. The "16+1" mechanism is a platform created in April 2012 by the Chinese leadership that seeks a stronger connection between China and the 16 CEE (Central and Eastern European) countries, namely Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovak Republic and Slovenia. Nowadays, many previously agreed-upon joint 16+1 projects were given the OBOR label, which may pave the way for diverging perceptions towards EU internal integration policies. CEE countries have shown that they are able to adopt an active policy of cooperation with China and an issue has been raised about the status of Central Europe within the region and in the EU. There are evident discrepancies between EU and non-EU members, especially in terms of rules and procedures related to investments and infrastructural projects. This poses serious challenges to the extent that EU and non-EU member countries develop common interests under the China-led 16+1 mechanism but perceive the divergent rules and regulations in EU vs. non-EU members as a source of bottlenecks in their development process.
- The EU should seriously consider the consequences of the lack of a common framework for bilateral investment with China. In fact, the BRI will further accelerate Chinese investment activity in various infrastructure projects in European countries. Before the BRI was announced, China's infrastructure investment in Europe targeted individual EU countries and many non-EU members in Central and Eastern Europe, mainly in the manufacturing and services sectors. Recently, Chinese firms have started to invest in large infrastructure projects backed by their inclusion in the BRI project list. Coalition building around individual projects now tends to prevail over the legal rules and procedures

that are at the heart of the EU competition policy, as the core principles around which the internal market has been developed.

Although the BRI should be appreciated and not disregarded, Europe's historical responsibility is to make multilateralism prevail against closed and competing initiatives towards regionalism. Only along those common avenues will Europe and China be able to build long-lasting cooperation, bridging thousands-of-kilometers-long gaps for mutual benefits.

As regards the circumstances that led Italy sign a BRI MoU with China, it is worth remembering the following events. Officially announced by Chinese media on Monday 18 March, Chinese President Xi Jinping's visit to Europe takes place from 21 to 26 March: it began in Italy, will stop in the Principality of Monaco and end in France. Six days ahead of opportunities for the evolution of the Chinese Belt and Road Initiative (BRI) in Europe. Despite the reluctance of several European governments, Italy is planning to officially join the BRI partner list by signing a Memorandum of Understanding (MoU) between the two countries. The text of this document has already circulated, in an unofficial draft, in the Italian press. In a context of growing concern about Chinese penetration in strategic sectors of the European economy, and the consequent attempts by the EU to put in place screening tools to assess the implications of Chinese investments for the national security of the member countries, the Rome's choice would mark the entry of a G7 country and founder of the EU for the first time in the framework of the Chinese infrastructure, economic and political expansion project. What is the status of Italy-China relations in 2019? In which areas do they unfold and what agreements are supported? How can the BRI redesign the state of Rome's political and economic relations?

President Xi Jinping's visit takes place at a time when the EU is trying to balance Beijing's influence and the growing need for foreign investment from its member states. In view of the EU-China Summit in Brussels on April 9th, the Chinese leadership underlined the desire to increase collaboration between China, the United States and Europe in the BRI in an attempt to stem the growing criticism deriving from the strategic value of the project: a tool, for many, which has the potential to increase Chinese influence in host countries.

Although Xi Jinping's visit is scheduled to end in France, Paris's attitude tends to be more cautious than the Italian one. President Emmanuel Macron has repeatedly expressed his support for multilateral coordination between EU members and China, claiming his support for the "spirit of equality, reciprocity", where the spirit of equality implies "respect for sovereignty national". However, the French government has shown a marked interest in increasing Chinese investments, imports and joint ventures, as well as improving the access of French goods to the Chinese market.

Unexpected was the announcement of President Xi Jinping's visit to the Principality of Monaco, whose port character, enclosed between the ports of Marseille and Genoa, is of particular interest for an increase in Chinese trade flows in the Mediterranean. Xi Jinping was in fact be the first Chinese President to visit the Principality of Monaco and to meet Prince Albert II, a historic meeting between the two countries which further emphasizes the potential for future bilateral cooperation.

The strategic partnership between Italy and China is not limited to the economic, commercial and financial sectors, but extends to cultural, scientific-technological, environmental and tourist collaboration. These sectors, headed by tourism and education, are a cornerstone of the Action Plan for strengthening economic, commercial, cultural and scientific-technological cooperation between Italy and China 2017-2020 signed by Chinese Premier Li Keqiang and the then Prime Minister Paolo Gentiloni in May 2015.

The new Italian relations with China also include people to people exchanges, cultural exchanges and tourism. 2018 was the year of tourism between the EU and China: this initiative, launched in Venice at the beginning of 2018, was aimed at promoting sustainable tourism, stimulating investments, improving connectivity and aviation safety and reducing the requirements for obtaining entry visas between China and EU member states.

In 2018, Italy was the third country in Europe visited by Chinese tourists. China has in fact represented the eleventh country of origin of tourists in Italy with an annual average of five million visitors. The total annual expenditure of Chinese tourists in Italy is around 480 million euros, while the average daily expenditure is 900 euros and includes, to a large extent, luxury goods or services. Although the spending of global Chinese shoppers worldwide has decreased by 4% since 2017, China has contributed 29% of total duty-free spending across Europe.

As regards the education sector, in the 2017-2018 academic year Chinese students represented 9% of the total number of foreign students in Italy, thanks in particular to the exchange programs Marco Polo and Turandot. The faculties that received the largest number of Chinese students were industrial engineering, architecture and construction engineering, design, linguistic mediation, economics and business management. Chinese students have preferred academic institutions in northwestern Italy, particularly

Lombardy and Piedmont. While China ranks third among the nationalities of foreign students in Italian universities after Albania and Romania, it remains the first Asian country of origin of students in Italy, followed by Iran and India.

The BRI has in Italy the historic and geographically natural landing place of its maritime route. For this reason, an absolute centrality assumes the logistics sector and, in particular, ports, as tools to allow a rapid spread of Chinese goods throughout continental Europe. Beijing has secured a direct presence in the Ligurian logistics sector since 2016, through a 49.9% stake in the container terminal at Vado Ligure (40% through COSCO Shipping and 9.9% at the Port of Qingdao), where it is building a new platform that will be operational by the end of 2019. Further interest was demonstrated for the port infrastructures of Genoa and Savona, with the recent visit of members of the Port of Qingdao and with the possible signing in March of an agreement of cooperation with the Chinese Communications Construction Company (CCCC).

On the Adriatic side, there has long been an intense cooperation with Beijing. Trieste is part of the Trihub project, as part of a framework agreement between the EU and China to promote reciprocal infrastructure investments. The China Merchants Group could make new investments in the Trieste port, while the giant CCCC intends to commit itself with a huge financial exposure (amounting to around 1.3 billion euros) in the construction of a high seabed quay in the port of Venice. Also in the Adriatic, in 2018 the China Merchant Group invested 10 million euros in the port of Ravenna with the aim of making the Byzantine city the European hub of naval engineering.

The presence of Beijing within the economic business environment of Italy - the second European manufacture - has steadily strengthened over the last decade, with the entry into the shareholding structure of strategic companies in the country such as Fca, Telecom Italia, Enel, Generali, Ansaldo Energia and Cdp Reti. The most important transaction dates back to 2015, when Pirelli was acquired by China National Chemical. Italy is the third destination of FDI in the EU, with 15.3 billion euros in the period 2000-2018.

The turning point in relations between China and Italy can be traced to the entry of Rome into the Asian Infrastructure Investment Bank (AIIB) in 2015 (together with Germany and France) with a 2.66% share. This partnership is strengthened by an agreement on a previous Memorandum of Understanding for cooperation in third countries negotiated by Undersecretary Michele Geraci in September 2018 which was recently followed by a similar provision in the draft agreement of the current MoU.

Opportunities and challenges are posed for Rome: on the one hand, new Chinese investments would ensure a push to get out of the stagnation of the national economy and a possible preferential access to the Chinese market, thanks to the strengthening of the infrastructure corridor and a possible increase in exports. Furthermore, the new strategic agreement could foster greater cooperation in different areas with mutual benefits for both parties. For example, a more intense relationship could create the conditions to increase the flow of Chinese tourism in Italy.

On the other hand, the critical points are numerous: China is still not considered a market economy due to the dumping activity practiced on the sale of some products abroad; Beijing often operates in a system of non-reciprocity in the commercial field and in the framework of investments, using different standards from the Western framework and practicing forms of discrimination when entering foreign operators in its market.

However, it should be remembered that on March 15, Beijing approved a new law on foreign direct investment - operational since January 2020 - to try to guarantee a level playing field, to open the country more to foreign capital and to provide greater security for international investors. First, the new law will eliminate the obligation to transfer technology in order to access the Chinese market, with greater penalties for patent infringements and with an extension of the validity of the same from 10 to 15 years. Second, the law provides that foreign investors enjoy equal treatment and access to the market compared to their Chinese competitors, with the exception of those sectors that are blacklisted. The latter, updated in December 2018, details the fields subject to total limitations or prohibitions.

For the moment the risks that Rome runs are different. First of all, the sharing of sensitive elements of its industrial and technological heritage with an actor who seems unable to guarantee adequate conditions of reciprocity. Secondly, given the current public finance conditions, Italy must make a careful analysis of the definition, implementation and management of any projects on the national territory, as well as the financing methods.

Therefore, in the new course of Rome's geo-economic relations, close coordination with European authorities and partners remains central, as it seems to be guaranteed for now by the draft of the MoU. The national interest in a diversification of its economic relations must therefore be pursued in compliance with European standards and regulations, as well as in compliance with the values shared within the framework of historical western alliances.

Overall, the circumstances that made Italy sign a MoU on BRI with China are very peculiar. Certainly, there was a combination of factors that convinced the government at that time that such a move would be a way forward in bilateral relations, given the strong interest by China for a largest Italian role in both the maritime and the overland trade routes within BRI. The idea was that trade relations could be significantly improved as a result of the MoU, and also that such a decision would put Italy in a position to become a favourite partner within the EU. The various criticisms that were raised at that time (also by myself) insisted on the fact that China aimed at expanding 'total bilateral trade'(with a preference to expand Chinese exports more than Chinese imports), and that an MoU would be no guarantee that things could develop differently. Those concerns were soon confirmed by the lack of any substantial progress in Italian exports and by an increasing tendency by China to pursue different strategies with individual countries in Europe, namely pragmatic cooperation with the 17 (+1) countries, industrial and strategic cooperation with Germany and France, agricultural and cultural cooperation with Italy and other Mediterranean countries.

As regards the changes that BRI will bring to international trade, one has to consider that the BRI aims at giving a comprehensive framework to many of the policy goals that the Chinese authorities have been pursuing over the last few years with the aim to address the various challenges the country faces both domestically and internationally

Among the economic aims of the BRI is reducing trade costs. As the world's biggest trading nation, China's main interest is to reduce the transport costs of shipping its goods abroad, an important part of which is accounted for by time-to-destination. Therefore, not less importantly than other motivations presented above, the BRI aims at reducing transportation time and costs, considering that the EU is China's main trade partner. More specifically, the EU was China's main import partner. in 2015, accounting for 12.5% of total Chinese imports, and the second largest export partner after the United States, as the destination for 15.6% of Chinese exports. The vast majority of these exports (92.3% of the total value) currently travel by sea, leaving very little to air, rail and road transport. Similarly, China is the EU's main import partner, providing 17.6% of total EU imports, and the second largest export partner after the United States, accounting for 9.3% of total EU exports. Almost all EU exports to China (96.4% of total value) travel by sea. Currently, the average shipping time from China to European partners is 730 hours, 20% more than China's average shipping time (about 610 hours, much longer than the world average of 406 hours). Switching to railway transport has great potential for saving transport time: according to data provided by GEFCO, infrastructure construction would reduce railroad travel time from China to Europe to 16-21 days (depending on departure and arrival location), compared to 37-45 days for sea freight, port-to-port.

As China currently faces higher-than- average shipping times and trimming them is an important goal of the projects funded within the BRI, documentation for projects aiming to be approved under the umbrella of the BRI must include statistics on the reduction in travel time and cost expected from project completion. Because such upgrading will affect all cargo plying these transport routes, the BRI is also of interest to countries beyond the designated Silk Road routes.

As one of the main goals of the BRI is to build new transport infrastructures, such as railways, highways, seaports, airports, etc., to connect China with Europe, the transport costs between China and Europe will be significantly reduced. Insofar as missing transport infrastructure acts as a major barrier to trade flows, especially for those countries where infrastructure facilities are more underdeveloped, the BRI's most evident and direct impact will be on the *size* of trade among the countries covered by the initiative. The implementation of the BRI should increase the flow of goods between China and Europe through the reduction of transport costs. This will apply to all bilateral trade in principle, that is, to both Chinese exports to Europe and European exports to China. Assuming the structure of trade follows the historical pattern, both imports and exports will increase. The consequences in terms of net effects on the size of the trade balance between Europe and China, currently showing a trade deficit for Europe, is uncertain. On the one hand, the increase in China's exports of goods to Europe might have a negative impact on Europe's net exports. However, this depends on whether there is still unexploited potential for Chinese goods on European markets. Considering that Chinese goods mostly compete on price and not on quality, the net effect could be an increase in demand for Chinese goods in Europe. On the other hand, recent research shows that Chinese demand is more and more oriented towards foreign goods than domestic goods, and this will likely increase Chinese imports from Europe. Therefore, it is very important that European countries pursue reciprocity in market access with China together with the development of the BRI, so that bilateral trade relations do not grow biased to the detriment of European trade balance.

A further impact of the BRI will be on the routes of international trade. Currently, 60% of China's trade (in value, and a much higher share in volume) travels by sea, due to the lower transport costs associated with international shipments compared to railway transport and to the lack of infrastructure for land transport across Central Asia. To the extent that infrastructure improvement will change the relative cost of seaborne trade compared to shipment by railroad (i.e. it will make it cheaper to ply overland routes than use the current sea-lanes through the Malacca Straits), an additional impact of the BRI will be on the *routes* and *transport modes* of China's foreign trade.

The countries relying mainly on the export of raw commodities to China (which in turn is their most important trade partner) will not be satisfied with just increasing such business ties, especially given the recent drop in commodity prices. China has tried to allay these concerns by linking construction of Silk Road projects to investments in industries that potentially could export more to China, thus diversifying the host economies.

The dynamics of this relationship, however, are far from a win-win situation. Many countries along the Silk Road (most notably in Central Asia) run a trade deficit with China, and should be concerned that denser and better transportation links with China will result in an even more unbalanced trade balance. Trade between China and the five Central Asian states – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan – has already grown dramatically since 2000. In particular, imports from China have grown much more rapidly than exports (mainly natural resources) from these countries, so that now the region has a growing trade deficit with China. Through the BRI, China now wants to build the roads and pipelines needed to ensure smooth access to the resources it imports from the region.

Although there is still no precise information about the cross-border infrastructure projects to be financed under the initiative, from the announcements made so far it is quite evident that most of them aim to increase the prospects for land connectivity between China and Europe. Transportation costs for bilateral China-Europe trade are significantly higher than the world's average. This explains why in some high-tech sectors such as electronics international freight forwarding agencies started early on switching to railroad, e.g. HP started planning to rely solely on railway transport already in 2017 for shipping its made-in-China PCs to Europe. This runs counter to recent trends and near-future expectations, and has prompted shipping agencies and major port authorities to redesign sea-lanes to reduce shipping times and improve the interconnectedness between the ports and the inland railway network.

On the other hand, China's average cost of shipping by sea to European countries is only US$922 for a 40-foot container, about half as much as China's average shipping cost, while railway transport is three times as expensive as maritime transport. Therefore, switching to railway transportation entails a trade-off between time and cost. Given that it can lead to a large decrease in transit times and the fact that technology now allows for a reduction in railroad costs, the BRI has the potential to become a game changer in international trade by moving large volumes of commerce from sea to land lanes.

Formulating scenarios is not easy, however. While economics acknowledges the importance of efficient and peaceful trade relations in global growth, the understanding of geographic patterns of international trade remains sketchy. The literature has extensively analysed the determinants of individual countries' access to international markets and bilateral trade flows, and has found support for the hypothesis that trade and infrastructure costs are important, but not the choice of transport modes, let alone the efficiency of the global network of trade routes. Furthermore, it is widely acknowledged that in choosing among alternative modes, firms consider predictability in transport costs a valuable feature. Therefore, a further element that can affect the trade-off between cost and time in different transport modes is the high volatility of sea freight rates compared to rail tariffs. This is because sea freight rates depend on the overall trade volumes much more than rail tariffs, which is why sea freight rate volatility has increased dramatically since the beginning of the world trade slowdown associated with the recent economic crisis since 2009.

Investment in infrastructure under the Belt and Road Initiative will increase maritime connectivity and lead to major trade-creating effects. Moreover, international cooperation and partnerships with the financing institutions related to the BRI will make it possible for countries to afford the financial outlays required by infrastructure investment, something that they are unable to do individually. International cooperation is also required to create incentives for shipping companies to serve destinations that are currently not profitable. Besides building infrastructure to improve land routes, the BRI also aims at intensifying trade along existing sea-lanes as well as improving access to the sea for land-locked countries.

Maritime connectivity is particularly important because maritime transport is at the core of international trade in merchandise. According to UNCTAD, around 80% of the volume of goods traded in the world travels by sea.

Maritime transport has become the dominant mode of transport in international trade following what has been called "the effects of the container revolution on world trade", i.e. an exponential intensification of containerised transport services. Containerisation allows exporters and importers from far away countries to trade with each other, even when individual trade transactions are not large enough to justify bearing the cost of individual shipments. Today, global container shipping services allow all countries to be connected to each other, either directly or indirectly, through transhipment services, facilities and hubs. Containerisation has been the single most important revolution in world trade over the last 20 years, with cumulative effects on trade creation that are much larger than GATT membership; with regard to North-North trade, containerisation increased trade by 790%, more than twice the effect of GATT membership (285%).

With the exception of China, developing countries are still far below their potential in terms of connectivity, particularly maritime connectivity, with only half of the average number of direct maritime connections (i.e. without transhipments) of developed countries. This situation persists, despite their growing share in seaborne trade, which rose from 18% to 56% of the world total between 1970 and 2010, according to UNCTAD. Recent literature has emphasised the importance of maritime transport connectivity and logistics performance (most notably, ports efficiency) as very important determinants of bilateral trade costs 13. Together they are a more important source of variation in trade costs than geographical distance, particularly for trade relations involving developing countries. Some UNCTAD research has recently found that the existence of a direct maritime connection (and not simply of maritime connectivity per se) plays an important role in determining trade costs. The absence of a direct connection is associated with a drop in exports value of 55% and any additional transhipment is associated with a drop in exports value of 25%.

Trade creation along the Belt and Road will occur through two major channels: on the one hand, through the expansion of trade ties between pairs of countries that are already important trade partners, facilitated by the decrease of transport costs and trade barriers; on the other hand, through new trade routes that will unlock potential trade ties among hitherto mutually isolated trading partners.

The main trade creation effect of the BRI will work through the reduction in transportation costs (especially railway and maritime), which should boost trade both between China and Europe and among Belt and Road transit countries, especially the landlocked ones. As there is no comprehensive information available on the improvements to infrastructure or the construction of new infrastructure, it is difficult to estimate how much transportation costs will be reduced. One recent study by Garcia-Herrero and Xu used information on the few finalised projects, such as the Yuxinou Railway (from Chongqing to Duisberg), which allows a 50% reduction in transportation time. In the case of maritime transport, the cost savings stem from increased port efficiency, of which only a few examples already exist, such as the Qingdao port, where transportation costs are expected to decrease by about 5%. Accordingly, the authors apply a 50% reduction in railway transport costs and 5% reduction in sea transportation costs over the whole area covered by the project and estimate that a 10% reduction in transportation costs throughout the BRI countries will foster an increase in trade by 1.3%. While the exercise is interesting, these estimates are severely biased in at least two important aspects. First, it is very arbitrary to generalise that there will be a similar reduction in transport costs for all bilateral trade relations throughout the countries involved, even more so when such a wide gap exists between the improvements across land and sea-lanes. Second, building new road and railway infrastructure could divert some trade from sea-lanes to land routes.

Whatever the precise figure might be, Italy holds a strategic position in the overall BRI as a terminal point in southern Europe. Several major port authorities in China have been actively looking for partnerships with Italian counterparts. For example, the Shanghai-Basel shipping time would be reduced by an estimated time of seven days (out of an average shipping time of 40 days), by travelling through either the Adriatic or the Tyrrhenian sea to the north of Italy, instead of travelling to Rotterdam through Gibraltar, and this could significantly alter the relative convenience between rail and sea trade. In this regard, an improvement in Italian port efficiency and interconnectedness between the ports and the inland railway network would significantly increase the chances that seaborne trade maintains some attractiveness compared to railway transport in the trade-off between time and cost.

A further trade-creation effect is likely to take place through new trade routes that will unlock potential trade ties with new trading partners. The most unexploited potential trade seems to be between Central Asian countries and their largest neighbouring economies, i.e. China and Europe. Central Asia is a fast-growing emerging region, with promising demographic (with a projected 4.45% of world population by 2030) and economic prospects (4% average GDP growth projected through 2017) (World Bank Global Economic Prospects). Poor connectivity and expensive logistics rank high in the list of factors that act as obstacles to growth, because all of the countries (except Pakistan) are land-locked. Pakistan has in fact the highest potential, and its economy is projected to become 16% larger than Italy's by 2050 according to PwC. At the other extreme, Uzbekistan is one of the only two countries in the world that are "double landlocked", i.e. surrounded entirely by one or more landlocked countries and requiring the crossing of at least two national borders to reach a coastline.

As already indicated, improving infrastructure across Central Asia would increase connectivity and will allow the region to exploit further trade potential with both China and the EU, its main trading partners. Currently, the EU shows much higher import and export values than China's trade with the region, but the STANs' imports from China have been growing very rapidly since 2010, so the region's trade balance with China has progressively deteriorated. Better infrastructure will intensify trade with China, with the STANs selling fairly similar goods and therefore expected to face even stronger competition with one another in the region in the future. This is partly a source of concern for the STANs as a group, as it could lead to an excessive dependence on China for consumption and capital goods.

Some Central Asian countries – most notably Kazakhstan – are part of other regional initiatives, such as the Eurasian Economic Union, an economic union of five states in northern Eurasia (Belarus, Kazakhstan, Russia, Armenia and Kyrgyzstan), which might become a competitor in the global economic space. However, the trade complementarity of these countries vis-à-vis one another is rather low (according to UNCTAD) (i.e. their export profiles do not match the import profiles of any others within the group), which means that a preferential trade agreement would not lead to any significant trade expansion or creation, and at the same time would not divert any of the trade of these Central Asian countries with other major trade partners.

BRI is likely to have long-lasting and deep implications for international economic and political relations, by becoming a true game changer. The BRI might change the major routes of international trade, which currently travels mainly by sea, in favour of overland routes. The changing network of international trade routes will have profound implications on the geopolitical relations between China and Europe, between China, Central Asia and Russia, and also within the whole Pacific region, to the extent that the major corridors of current seaborne trade of goods, mineral oils and gas will probably shift westwards away from the South China Sea towards the Middle Eastern lanes.