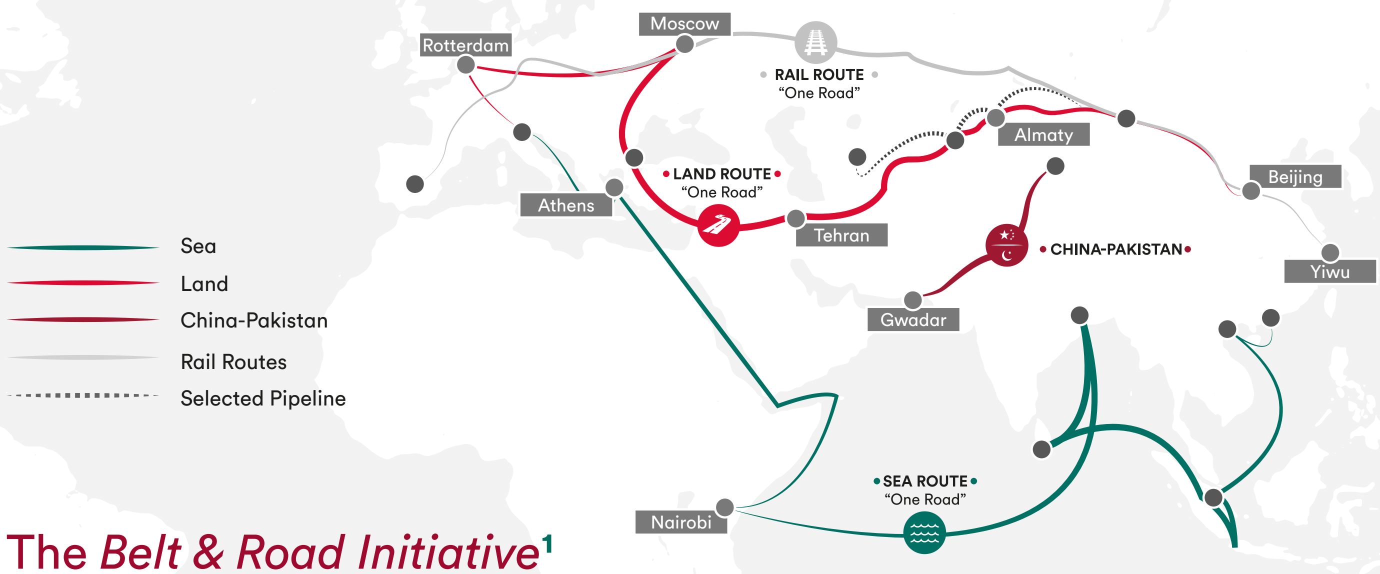
sace
•gruppo cdp•

FOCUS ON
One Belt One Road: last train for Beijing

A Produced by the Economic Analysis and Research



The *Belt & Road Initiative*[1]

WHAT IT IS

- It is a strategic initiative launched in 2013 by the Chinese president Xi Jinping.
- It consists in creating **two passageways, one on land** (One Belt) through Central Asia and **one in the sea** (One Road) over the Indian Ocean and Africa, designed to join China to Europe.
- In addition to the physical connections which will be created with the construction of infrastructures, it also aims to create an **area of political and economic cooperation** in which the main player is China.

WHAT IT DOES

The objectives of the Belt & Road initiative are to:

- increase the trade between China and the European countries and make it more efficient
- access and diversify the sources of energy supply
- expand China's political and economic influence.
- make China the new "Central Country" replacing the USA as the new global player.
- "export" the excess Chinese production capacity.

[1] Belt & Road initiative or New Silk Road are all synonyms for the OBOR project.

How much is the Belt & Road Initiative worth? (data in % of the worldwide total)

- Geographical range **38.5%**
- Gross Domestic Product **30.0%**
- Population **62.3%**
- Domestic consumption **24.0%**

SOURCE: Fung Business Intelligence Centre, World Bank

Key figures

Total value of the project:
USD 1,400 billion[2] → Equivalent to **nominal GDP** of countries such as: Russia, South Korea, Canada

900 priority construction sites being set up → **USD 890 billion**[3]

65 countries involved → **11 countries crossed** by the new infrastructures

13,000 km of railway lines → **14 days:** Train journey between Chongqing and Duisburg

USD 2,500 billion

Potential growth of Chinese trade in 10 years thanks to OBOR[4]

[2] The Marshall Plan would today amount to USD 130 billion at current prices (approximately USD 14 billion 70 years ago)
[3] Source: China Development Bank and Economist
[4] Source: Sole24Ore

Risk of marginalisation and potential role of Italian companies

Whereas in Marco Polo's Silk Roads Italy was both a point of departure and a point of arrival, in the New Silk Road there is a risk that Italy will have to take a back seat.

MARITIME STRATEGY

In the Mediterranean, China defined its maritime strategy by investing in the port of Piraeus in Greece, with the intention to transform it into a logistic hub that would provide access to the European market. In 2016, the Greek Parliament sold 67% of the port of Piraeus to the Chinese company Cosco Shipping in exchange for € 368.5 million. The objective of this agreement is to create approximately 31,000 new jobs by strengthening the operational capacity of the port and creating a railway line that will connect the Greek port of landing to the German market, passing through the Balkan States. Before the Chinese arrived, the port of Athens handled approximately 500,000 containers per year, a figure which has now increased to become 3.1 million and is set to double in the space of a few years[5]. If, on the one hand, this growth makes the Mediterranean more attractive, on the other hand it creates an alternative to the Italian ports, reducing the commercial opportunities open to Italian companies, which appear to have been cut out of the route.

RAILWAY LINE

The railway line that connects China to Europe and ends in Duisburg, Hamburg and Rotterdam, involves a journey that lasts approximately 14 days, almost half the time it takes by sea. Despite this, the trains that come to Europe from China often return empty and it is not considered that during the journey (across Siberia), especially in the winter months, the temperature can reach levels so low as to compromise the integrity of the load (e.g. electrical materials and electronic goods), with clear consequences for the costs of the transport. The higher cost of transporting goods by rail is also demonstrated by the case of the first train which, in January 2017, left London and arrived in Yiwu, on the eastern coast of China: the journey took three weeks, but the cost was more than double the cost of the sea freight[6]. However, despite these problems, transportation via rail may in any case be suitable for those types of products which have a higher value in ratio to their weight, such as cars, for example: in particular the German car manufacturers, which until now were obliged to make their products destined for the eastern markets transit through Italy (and then be loaded on to ships), would benefit from the competitive edge provided by the possibility of transporting them directly to China, without passing through the Italian ports.

[5]Source: Orizzonte Cina
[6]Source: Economist

OPPORTUNITIES FROM WHICH ITALY CAN BENEFIT

Moving goods by sea not only avoids the problem of the cold weather in Siberia and that of the highlands of Kazakhstan, but there is also the fact that the new trains can potentially only move 300,000 - 500,000 containers per year, compared with the 20 million moved by sea[7].

However, in this context, in which maritime transport is playing the lead role, are there still any opportunities from which Italy might benefit?

A. In view of Italy's natural propensity to the port and logistics sector, composed of a cluster of 160,000 companies with an estimated value of approximately € 220 billion, an early bid to enter the project is being made via the **North Adriatic Port Association** (NAPA), which includes the ports of Venice, Ravenna, Trieste, Capodistria (Slovenia) and Rijeka (Fiume, Croatia). The association has begun working on a project off Venice to create a multimodal offshore platform with the capacity to receive vessels with high payloads, coming from Suez[8]. The project, which will cost € 2.2 billion and be partially financed with public funds (€ 350 million provided by the Italian government), will enable between 1.8 and 3 million TEUs[9] to be moved every year (to get a better idea, to date the total number of TEUs moved by all Italian ports per year is 6 million)[10] and would enable the Adriatic to offer a more direct point of access to the German market than that of its Greek competitor, while still remaining in line with the international standards of efficiency.
Another step in this direction was taken with the opening of the **Gotthard Tunnel** in June 2016, connecting Italy and Switzerland, and yet another will arrive in the form of the future **Lötschberg Tunnel** (scheduled to open in 2020), connecting Zurich with Milan in two and a half hours. As OBOR is a guideline with long times of implementation, Italy can therefore take advantage of some of the project's undefined areas to carve out a niche for itself, either across the Adriatic or by road.

B. **One lever that can be used is that of the AIIB[11] ,** the bank set up by the Chinese government to support the projects included in the OBOR plan, "sidestepping" financial institutions such as the IMF and the World Bank. Italy joined the AIIB in a series of round table discussions that witnessed the participation of the Cassa depositi e prestiti. The characteristic of AIIB is that it is ready to evaluate and finance projects (at rates that are not, however, as favourable as those granted by the multilateral institutions), in particular in the infrastructural sector, proposed to it by its member countries; instead it will be unlikely to grant financing to non-member countries. A more proactive approach is therefore needed to gain access to a range of important funding and to make the most of the privileged position that Italy

[7]Source: Orizzonte Cina
[8]In 2015, the new Suez Canal was opened, and thanks to its expansion, the number of ships in transit each day doubled, vessels could cross it simultaneously in both directions, and it became accessible to large vessels.[9] TEU: *Twenty foot equivalent unit*, unità di misura utilizzata nel trasporto container.
[9]1 TEU is based on the volume of a 20-foot-long container and is equal to a total of approximately 40 cubic metres.
[10]Source: ETNC report 2016
[11]Asian Infrastructure Investment Bank

holds today: the bank has a share capital of USD 100 billion and Italy is the 12th member country, with a relatively high share, equal to 2.58%.

C. Italy can also benefit from opportunities in the Central Asian countries. The 65 countries involved in OBOR absorb 27% of all Italian export business worldwide, but they are countries with high growth margins. To date, Italian companies have been able to gain a market share in these territories, by operating above all in the Oil & Gas sector. In the wake of a potential economic development in the geographical areas affected by OBOR and by the bid to **diversify the economies in the "stan"** countries, Italian companies can present themselves on these markets more in the short term with industrial machinery products, goods that are essential for upgrading technology and diversifying production, and in the medium to long term with consumer goods such as those in the fashion, furniture and electronic appliance segments.

The support provided by SACE-Simest

Reaching new markets more easily thanks to more efficient infrastructures is an important factor in terms of competitiveness for the companies interested in internationalisation. However, opportunities are always two-sided, and recognising this implies becoming aware of the risks that the Chinese project can bring. A lack of experience locally, high risks of both a political nature and of failure to receive payments, could make these opportunities on the New Silk Road inaccessible, especially to Italian SMIs. The support of the SACE group can enable Italian companies to explore these markets **externalising the risks, both those regarding credit** (failure to receive payments) **and, above all, those of a political nature**, which are perhaps the risks to be feared the most in this context and these areas: expropriation, also in the sense of reviewing the contracts already been concluded, impossibility to convert revenues into a strong currency and transfer them out of the country in which they operate, and risks of political violence (terrorist attacks, or phenomena of protests or even more serious events such as wars) which proceed in damaging local investment. A financial package including a SACE policy can certainly enhance the competitiveness of the exporting/investing company, putting it in a position that can favour the assignment of a job order. **The support of SIMEST, useful for investments made abroad,** comes about in the form of the acquisition of a temporary, minority share of the equity of the foreign or Italian company. The share can be acquired when the company is incorporated (greenfield initiatives), during increases in the share capital, or in the case of takeovers of third parties (M&A operations), and can be for as much as 49% of the capital of the company in question. Additional support from SIMEST can be provided in the form of financing at favourable rates for SMIs that want to promote development plans in international markets.

Some of the Countries crossed by the New Silk Road

COUNTRY	Italian exports 2016 (million €)	Average Italian export growth rate in last 5 years (CAGR)	Average SACE credit risk*	Average SACE political risk*
POLAND	**11,229.70**	3.6%	41	27
CHINA	**1,077.51**	2.1%	36	44
TURKEY	**9,598.68**	-0.1 %	60	63
RUSSIA	**6,720.48**	-6.3%	68	59
IRAN	**1,541.74**	-3.7%	85	66
THAILAND	**1,334.73**	2.2%	48	47
UKRAINE	**1,098.71**	-8.2%	84	69
MALAYSIA	**1,062.56**	4.7%	32	32
KAZAKIHSTAN	**842.15**	-0.6%	69	51
PAKISTAN	**621.78**	4.9%	72	79
UZBEKISTAN	**176.41**	8.8%	73	64
MONGOLIA	**31.06**	4.7%	90	61
KIRGHIZISTAN	**21.86**	5.6%	84	71

*0=Minimum risk, 100=Maximum risk.

SOURCE: Istat, SACE

Prepared by

Giulio Alberto Bianchi, Valentina Cariani and Giovanni Salinaro

Contacts

Customer service: Numero Verde 800-269264 info@sace.it

Press office: +39 06 6736888 - mediarelations@sace.it