



Intersecting the Adriatic Beltway

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South-Adriatic Connectivity in the Maritime Silk Road Initiative

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Abstract

We argue that the South Adriatic triangle between Puglia, Albania and Montenegro constitutes an important access hub for China and Asian business actors interested in Western Balkans markets, and in Italian and then larger EU market. At the same time, economic actors of this European triangle can profit from the Maritime Silk Road corridors not only to reach Far Eastern markets, but also to improve the connectivity amongst them.

But while during the globalization high times, this increased interaction and connectivity was growing and encouraged, nowadays the increase of political, security and logistical threats are resulting in the appearance of “re-shoring” phenomena and the decline of the ‘just in time’ global production model. Security of the supply of sensitive industrial goods has become an overarching objective of governments and of companies, overtaking cost and efficiency concerns.

In this context, South Adriatic countries with their sound rule of law and contract enforcement environments, strong manufacturing capacity, good connectivity infrastructure, deep labor pools and minimal geopolitical risks will benefit. Boosted by their high connectivity to European Union – in markets, Global Value Chains, p2p, and institutional – Albania and Montenegro are well placed to profit. Italy, and especially Puglia, is their closest EU neighbor and can become their main partner.

I. Centrality of Maritime Connectivity

Since 2013, China has engaged in connectivity through *Belt and Road Initiative* (BRI) through a multitude of investment projects mainly focusing on building transport and energy infrastructure, enhancing trade, and developing digital networks¹. BRI (or Silk Road Economic Belt and the Maritime Silk Road) aims to boost regional economic growth via “economic corridors”. BRI has contributed to shape the economic geography of the Mediterranean region by further strengthening the port infrastructure along the shipping lanes that connect China and Asia, to Europe through the Indian Ocean, the Suez Canal, and the Mediterranean Sea.²

i) the BRI context

BRI intersects Adriatic Beltway³ primarily through Eastern Mediterranean, by way of the ports of Piraeus in the Ionian Sea and of the Adriatic ports on both of its shores up to Venice and Trieste. The Black Sea access combines maritime with inland waterways and motorways (Corridor Rhine – Danube) and rail (Corridor Orient / East Med). The ports in the Eastern Mediterranean and Black Sea area are the European Union’s access nodes to the neighbouring countries in the South East where the regular connections are predominantly short-sea connections. Notably, five out of nine EU Core Network Corridor ports have no direct deep-sea services at all.

Source: ISL based on MDS Transmodal and AIS ship movement data (Motorways of the Sea (MoS) – Detailed Implementation Plan of the European Coordinator, 2018).

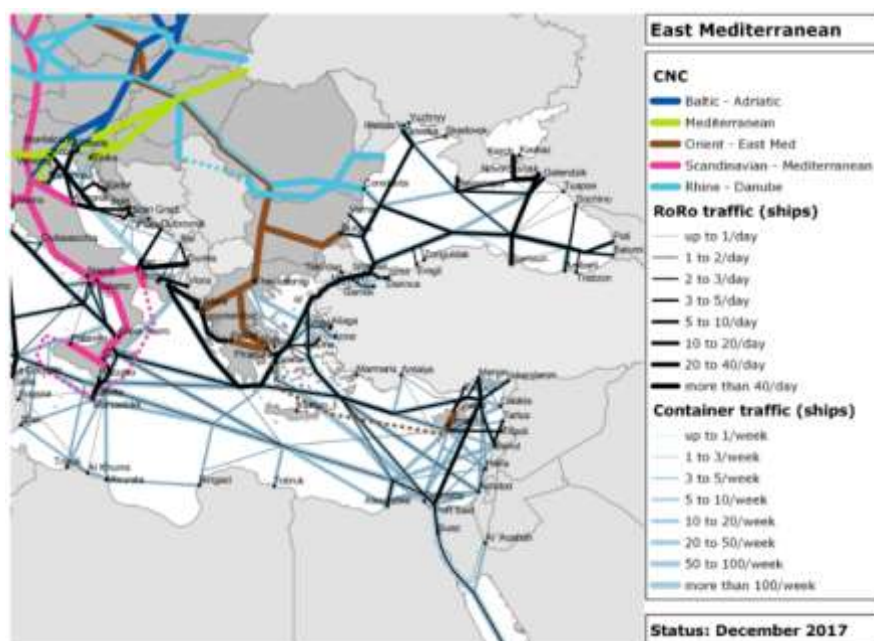


Figure 1. Connections in the Eastern Mediterranean and Black Sea

¹ “Xi Jinping Chairs and Addresses the Leaders' Roundtable of the Second Belt and Road Forum for International Cooperation (BRF)”, *The Second Belt and Road Forum for International Cooperation*, 28 April 2019

² Enrico Fardella, "The Belt and Road Initiative and its impact on Europe," *Valdai Papers*, no. 82 (March 2018), <https://bit.ly/2FfSBGq>; Massimo Deandrei, "La geo-economia marittima, la Cina e la nuova centralità del Mediterraneo" [Maritime geo-economics, China, and the new centrality of the Mediterranean Sea], *OrizzonteCina* 7, no. 6 (2016), <https://bit.ly/2obmHqO>

³ see Transport Conenctivity in South Adriatic – the Adriatic Beltway, Policy Study, July 2020, CDI eds.

In that context, BRI impact in the Adriatic Beltway (AP) with regard to transport connectivity represents three interest points. First, it supports exchanges amongst the region and China – China being major partner of all the countries of Adriatic littoral. Second, it makes the Adriatic the entry hub for China business in Europe. Third, it virtually places the AB at the center of a logistic and distribution hub for Chinese goods in the Mediterranean but also in Central Europe.

In the Eastern Mediterranean, there are three major ro-ro routes: i) Adriatic Sea to Greece, ii) Greece to Turkey, and; iii) connections in the Near East (Egypt, Turkey and Cyprus). With regard to container traffic, many ports benefit from being close to the main Europe - Asia trade route that goes through the Suez Canal. Some of them have established themselves as hub ports for trans-shipment, while the ro-ro traffic among neighbouring countries in the Eastern Mediterranean is quite extensive

The advantage accruing to the Adriatic ports in serving central Europe could be demonstrated by the comparative distance for shipping from Shanghai to Rijeka, i.e. 9,741 nautical miles, while the shipping distance from Shanghai to the port of Hamburg Germany is 12,277 nautical miles. Once the geographical advantages of the Adriatic-Ionian route are backed up by a significant scale and volume of transport, this can lead to lower unit transport costs; reduce congestion on major European railways and decrease transport and energy costs, as well as CO2 emissions from transport.

The maritime transport – through Maritime Silk Road and Motorways of the Sea – can become an instrument supporting the development of complementary efficient logistics chains in the Mediterranean, Black Sea and Eastern neighbouring countries. They have a role to play in the context of macro-regional strategies and seek synergies with a number of transport initiatives developed by the Union for Mediterranean.

ii) BRI and European Ports

At the start of 16+1 Beijing regarded CEE as a common geopolitical entity within larger EU. Gradually Chinese leadership evolved in its perception about CEE and acknowledged the existence of sub-regional geopolitical dynamics within this area.

China has expressed its interest in port cooperation with EU, and has identified Black Sea, Baltic and Adriatic. Since 2014 Chinese officials have raised the idea of financing inland waterway construction in Czech Republic to join Danube, Oder and Elbe to make possible the connection of ports of Hamburg (Germany), Szczecin (Poland) and Constance (Romania). Even if preliminary feasibility studies are said to have started, and notwithstanding the support of Czech, Polish, Slovak and Hungarian governments, experts are skeptic on the realization of such program. Nevertheless China interest has been sustainable as witnessed by the declaration in the 2016 quote of the Three Seas initiative in Riga.

16+1 Riga Summit (2017) witnessed the adoption of the Baltic, Adriatic and Black Seas Ports cooperation in which Beijing indirectly recognized the sub-regional divisions within the region of CEE (the Baltic states; Visegrád group; the South East Europe). But even within the Adriatic ports area, the adjoining countries have different potential, developmental needs and interests, and compete on their own for Chinese investments.

Striving for a common approach towards China, in 2018 the EU Commission released an agreement with EU member states on a framework for stronger FDI screening. The proposal was meanwhile endorsed by the European Parliament and can be seen as a tool to find a more coherent and unified approach on FDI policies

and thus a more qualified response to China's FDI in Europe. The screening mechanism was officially endorsed by the Council in March 2019.

So far the Chinese strategic approach in South East Europe has been focused less on maritime connectivity than on utilization of the Western Balkan route (Port of Piraeus, modernization of rail connection Belgrade-Budapest, etc). The Western Balkans route intersects TEN-T "Orient" Corridor thus accessing Black and Baltic Seas (as well as Ionian and Aegean Seas). Through TEN-T "Rhine-Danube" Corridor, it also connects Central Europe with Black Sea. The visit of Xi Jinping and the signature of MoU on development of four Italian ports (including Genova and Trieste) put the eastern side of the Adriatic on the BRI map. However, the CNC ports of Bari and Taranto were not included.

Parallel with the Western Balkans route, China has shown interest for the existing "Five Ports Alliance" between Italy, Slovenia and Croatia on pulling together a joint container terminal. The financing would be a joint endeavor amongst Italian government and Chinese investors. The pivot would be Venice port onshore – offshore platform (where Chinese companies have already started to work) combined with modernization and enlargement of the Italian ports of Ravenna and Trieste, of the port of Koper in Slovenia as well as the port of Fiume in Croatia. The estimated bill of quantities is EUR 2,2bn, and would provide an optimal connectivity nod to those five ports with the railway connections and TEN-T Scandinavian – East Mediterranean, and Rhine – Alpine that go through North of Italy towards Europe.

II. Connections overlap in the Eastern shores of Adriatic

Technically, there are two connectivity initiatives geographically overlapping in the Western Balkans (WB): the EU Connectivity Agenda (EUCA) and the 17+1 Cooperation Initiative (17+1CI). Both initiatives are quite recent. While the beginning of 17+1CI can be traced back to the 2012 Warsaw Summit, EUCA in the Western Balkans took shape in 2015 at the Vienna Western Balkans Summit, as a component of the Berlin Process.

Both initiatives started by supporting cooperation with WB in transport (and energy). While EUCA aims to extend Trans-European Networks in the WB to improve market access and to support growth in the Balkans region, China prefers to combine its engagement in infrastructure with investment in productive activities and in supply chains alongside transport networks.

i) EU – China Connectivity Platform

To maintain and develop “*strong and fruitful relations in the area of transport*”, EU and China established in 2015 a Connectivity Platform⁴. This platform aims to “*...enhance synergies between the EU’s approach to connectivity, including the TEN-T and China’s BRI*”. Very importantly the platform is also to be used towards “*...greater transparency, reciprocity in market access and a level playing field for businesses in the area of transport infrastructure development*”.

Western Balkans 6 has been the object of EU Connectivity Agenda since 2014. The Connectivity Agenda aims enhance the connectivity between the Western Balkans countries as well as with the EU network, with the facilitation provided by the EC. From its beginning, CA has been linked to “connecting physical infrastructure and energy systems” within the region and of the region with the EU. Since 2014, CA has resulted in an increase of EU funding and support for the economic integration within the region and of the region with the EU. By end of 2019, CA consisted in 39 projects, for an investment value of €3.2 billion, including a grant value of €880 million, the remaining being loans. In this context, the transport sector has received funding for 32 projects out of 39, becoming the most important one.

EU has included Balkan Peninsula territory in its EU-China Connectivity Platform (EU- ChCP) since 2016. In concrete terms:

- in 2016 EU “offered” to China to get involved in Serbia (Orient/East-Med Corridor) and BiH (Corridor 5c Highway);
- in the 2017 EU-ChCP list of projects where China was invited to get involved there was no section that went through Western Balkan countries;
- in the EU-ChCP 2018 figure the: (i) Belgrade -Budapest railway, and; (ii) the part of Orient/East-Med Corridor, that goes through the Western Balkans. In April 2019, following a vague European connectivity strategy for Asia produced in September 2018, the EU-China Summit reaffirmed the willingness of both sides to improve Europe-Asia connectivity and continue to forge synergies between the EU strategy on Connecting Europe and Asia as well as the EU Trans-European Transport Networks and China’s BRI. The EU-Connectivity Platform was mentioned as an important instrument to enhance communication and identify cooperation projects;

⁴ The EU-China Connectivity Platform, at: https://ec.europa.eu/transport/themes/international/eu-china-connectivity-platform_en

- in the EU-ChCP 2019⁵ figure four very important infrastructure projects: i) Adriatic – Ionian Motorway in Albania; ii) Corridor 5c Highway Project in BiH; iii) Matesevo – Andrijevisa section of Bar – Bojare Highway in Montenegro; and, iv) Serbia Rail Network.

On its part, the main concrete and under way Chinese transport infrastructure investments in TEN-T in the SEE6 include:

- EU TEN-T Corridor X (or the Balkan Silk Road) from Port of Piraeus, through Skopje to Belgrade then to the Hungarian border, where Chinese companies are working on Belgrade – Budapest section;
- EU TEN-T Corridor VIII (that joins Adriatic Sea from Albania, through Macedonia with Bulgarian Black Sea), where Sinohydro is working on two motorway sections in North Macedonia; and,
- EU TEN-T Corridor XI Bar – Belgrade highway in both Montenegro (Bar – Bojare axis) and in Serbia.

Both infrastructure projects and Chinese investment in industrial / service activities have followed a bilateral cooperation logic. The decision to enter a selected WB6 country has been conditioned to a very large extent by the political backing of local elites and by the national welcoming climate. Almost all of them have been preceded by negotiations at WB6 country state level resulting in Memorandum of Understandings between WB6 authorities and the Chinese investors. In the case of foreign direct investments and/or Mergers & Acquisitions (M&A), the target market for such investments has always been the larger WB6 region, or the EU.

ii) China – SEE6 institutional cooperation in Transport

The institutional cooperation in connectivity amongst China and WB countries has developed in multiple levels. The annual 17+1CI summits and the establishment of different Sectors Secretariats have provided a dense regional institutional cooperation web of institutions. This high-level institutional cooperation has resulted in the "connectivity" being the unifying thread of the regional cooperation feature amongst China and WB countries.

Transport Connectivity in the framework of BRI is under the remit of:

1. *China – CEEC Association on Transport and Infrastructure Cooperation*, which is functioning nearby the Ministry of Trade and Communications of Serbia⁶;
2. *China – CEEC Association for Logistics Cooperation (CCALC)* set up at the Ministry of Transport and Communication of Latvia⁷. During the China-Central and Eastern Europe 16+1 summit in 2015 in Suzhou it was decided that Latvia would host the secretariat for the coordination of logistics issues. Its aim is to strengthen cooperation; to coordinate implementation of the investment projects in transport and logistics between China and Europe; to foster the information exchange on transport and logistics services in China and CEE; to improve the supply chain and border crossing between China and CEE in order to remove bottlenecks and reduce administrative burdens in transport documentation, including customs and other border-crossing procedures; and, to facilitate the container train route

⁵ For more information see: <https://ec.europa.eu/transport/sites/transport/files/eu-china-connectivity-platform-projects-2019.pdf>

⁶ No web-based information was publicly available on China – CEEC Association on Transport and Infrastructure Cooperation as of 26 June 2020

⁷ For more information see: <http://www.ceec-china-logistics.org/en/about-us/info/>

development between China and Europe.

3. *China – CEEC Maritime Secretariat* set up at the Ministry of Maritime Economy and Inland Navigation in Warsaw. This structure combines political and business aspects. Within the scope of Secretariat activities, entities from each 17+1 countries can publish information on enterprises and their offers, development plans, or cooperation capabilities. International events within the scope of maritime affairs, such as seminars, conferences and fairs are also promoted. Matchmaking – or communications between enterprises, aimed at establishing friendly and mutually advantageous business relations – is the next very important mission component of CCMS⁸.

Notwithstanding the institutionalized 17+1 multilateral cooperation framework, China's concrete engagements in infrastructure as well as its business investments in the region has been decided and implemented at a bilateral level. In their foray in WB6 infrastructure or new production facilities, Chinese companies have adapted to the national political, institutional and legal context.

⁸ for more information see: https://ceec-china-maritime.org/?page_id=567

III. Business in SAA

i) Chinese business in Eastern Adriatic shores

In the Western Balkans, it can be safely stated that until now Chinese engagement in the region has not been in direct competition with EU companies. Even in Croatia's Peljesac bridge tender – supported financially at 85% by EU funds - the direct competitor of the Chinese winner was a Turkish - Italian consortium, while the (dismissed) complaint for unfair competition was logged by a Russian - Austrian competitor.

In Albania, it was a western consortium of shareholders that sold Tirana Airport to the current Chinese owners. In Montenegro, before contracting the Chinese, the Bar-Boljare highway was presented twice to Western financial institutions for financing, and was turned down on feasibility grounds.

The main pull factors attracting China in the Balkans are the region's huge investment needs in infrastructure⁹, in re-industrialization, and the necessity to improve the public goods and services. Unlike in the Member States coming from South Eastern Europe countries, those requirements cannot be addressed through the EU Structural Funds. The main economic push factors for China relate to the availability and competitive prices of Chinese technology; the Western Balkans geographical location on the BRI road- and maritime corridors; a decent return on investment (ROI) rate; and the WB access to EU market quotas. The existence of a functioning Rule of Law and political stability, complete the list.

On the other side, there is a need for better preparation of WB institutions and other Balkan stakeholders when negotiating with Chinese companies. Project identification, clearer rules of engagement, a regional coordination approach, exchange of experiences amongst Balkan countries, strengthening of WB6 institutional capacities, participation in "3rd Party Market Cooperation" mechanisms, more and better communication, and greater attention to the language and discourse of each partner, are areas that WB countries must work on to get the best possible deals for their citizen.

Even if Serbia remains by far the biggest China pattern in WB6, Albania and Montenegro have seen their exchanges grow gradually. In 2018 Albanian exports to China amounted to 2% of the total stock (48% to Italy), while imports from China were at 8% of the totals (27% from Italy)¹⁰. In 2018 Montenegro sent to China 3.5% of its exports (3.5% to Italy) and imported 10% - China being the 2nd biggest import country behind Serbia and before Germany¹¹ (Italian goods took 7.4% of overall Montenegrin imports).

⁹ EBRD estimates the annual infrastructure investment needs of the region to 8-10% of GDP over the next 5 years to cover the huge gaps in physical infrastructure density indicators, as compared to its EU-CEE peers. Western Balkan is FDI starved and urgently need zero-priced capital.

¹⁰ Tregtia e Jashtme 2014-2018, INSTAT

¹¹ External trade in goods of Montenegro January-December 2018, MONSTAT

ii) South-Adriatic node

Italy's trade exchanges with the Balkans are also in strong evolution. The non-European countries of the Balkans represent an additional market of particular relevance for Italy for short sea shipping, both because exchanges occur mainly by sea and because commercial relations have taken on significant dimensions. In 2017, the goods exchanged with the six countries considered to belong to this area almost reached 8 billion Euros.

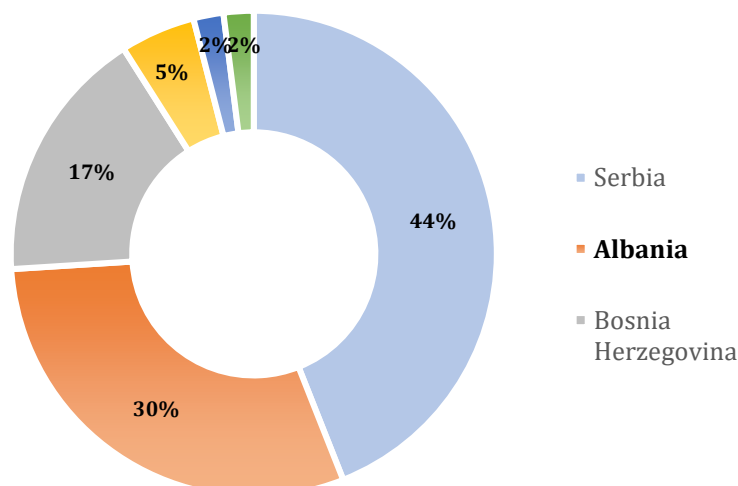


Figure 2. Italy's main partners within the non-EU Balkan countries.

Source: AdSP MAM on Eurostat, 2018.

Italy is responsible for about a third of total trade (24 billion euros) to non-European Balkan countries, second only to Germany. In particular, Italy is Albania's main trading partner (it is responsible for 65% of total foreign trade, equal to 2.4 billion euros) and is one of the main partners for Serbia, covering over a third of the total of trade with the EU (in absolute terms the total amount of trade with Serbia is significantly higher, around 3.5 billion). Italy is also Montenegro's fourth largest supplier with Montenegrin imports of 91 million euros and 10th as a customer with Montenegrin exports of 6 million euros, while it is the fifth largest customer among EU countries.

Table 1. Trade flows of the Apulia region (in million euros)

	Import			Export			TOTAL		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
Albania	215.5	242.1	242.6	219.2	228.0	229.4	434.7	470.1	472.0
Montenegro	0.6	1.0	0.5	10.8	11.2	11.4	11.4	12.2	11.9
China	502.6	1,300.7	1,550.2	979.4	140.1	113.6	1,482.0	1,440.8	1,663.9
World	8,771.0	8,884.1	9,702.3	8,250.0	8,077.4	8,755.8	17,021.0	16,961.4	18,458.0

Source: Own calculations based on Instat/Coeweb, 2020. Note: Provisional data for the year 2019.

A relevant part of the commercial trade with Albania and Montenegro occurs with Apulia region, which is respectively around 20% and 37% of the total commercial trade with Italy mainly carried out by sea.

First of all it is important the concretization of the general framework in which “One Belt One Road” (Obor) initiatives will be located in Italy, even if a certain activism by local authorities and institutions is at the basis of the acceleration of the relationship between the Italian and Chinese governments.

Tourism in SAA as destination Management

The centrality of the tourism sector in the regional economy can be summarized in three data in 2019, with a constantly positive trend since 2015:

- Tourism in Puglia impacts EUR 6.5 billion on final consumption (12.3% on total consumption);
- 9 billion in terms of added value (13.6% of the total);
- 135,000 employees (15.4% of the total) directly and indirectly involved in the tourist supply chain made up of 52,000 companies (38% of the total).

According to Bankitalia, international tourism spending also increased by + 3% from January to September 2019.

2019 was a record year for Apulia airports exceeding 8 million passengers: historic milestone for Bari airport, with 5.5 million passengers and Brindisi with 2.7 million. Other 14 new routes have been announced for 2020 with the definition of agreements for international connections to the USA and China.

The top 10 destinations of arrival remain London, Budapest, Paris, Bucharest, Amsterdam Zurich, Geneve, Frankfurt, Berlin and others. At the same time, both countries, Albania, Montenegro and China, are not ranked in the top 15 foreign markets list of Apulia.

IV. Italy and China

i) bilateral

In March 2019, Italy became an official member of the Belt and Road Initiative, becoming the first G-7 country to join the Beijing led platform and the largest economy among the 15 European Union countries that are BRI members. Since the 2000, trade between the two countries has increased five-fold (from \$9.6 billion in 2001 to \$49.9 billion in 2019), while the cumulative Chinese FDI in Italy reached \$17.4 billion (15.9 billion euros).

However, overall trade levels between Italy and China have barely changed since 2010 (\$49.5 billion). At the same time, the trade deficit for Italy has been continuously increasing, reaching \$20.9 billion in 2019, while Italian exports to China have declined, dropping a 6.1 percent last year alone. In 2019, China was the third largest import partner for Italy, providing more than 7% of its imports, and the ninth biggest export partner, receiving just 2.9% of Italian exports, mainly in electronic equipment and machinery.

Italian authorities recognize the importance and benefits of improving connectivity between Asia and Europe and the role that the Belt and Road Initiative can play. On March 2019, the parties reached the understanding to work together within the Belt and Road Initiative (BRI) to translate mutual complementary strengths into advantages for practical cooperation and sustainable growth, supporting synergies between the Belt and Road Initiative and priorities identified in the Investment Plan for Europe and the Trans-European Networks, bearing in mind discussions in the EU China Connectivity Platform.

This Memorandum¹² aims to strengthen cooperation between Italy and China, and promote regional connectivity within an open, inclusive and balanced framework beneficial to all, so as to promote regional peace, security, stability and sustainable development.

One of the areas of cooperation interests the *Transport, logistics and infrastructure* for which both parties share a common vision about the improvement of accessible, safe, inclusive and sustainable transport.

Italy and China have engaged to cooperate in the development of infrastructure connectivity, including financing, interoperability and logistics, in areas of mutual interest (such as roads, railways, bridges, civil aviation, ports, energy – including renewables and natural gas - and telecommunications). They have expressed their interest in developing synergies between the Belt and Road Initiative, and the Italian system of transport and infrastructure, by cooperation in such as -inter alia- roads, railways, bridges, civil aviation and ports and the EU Trans-European Transport Network (TEN-T).

ii) the Adriatic Hub

More than two-thirds of trade (in value) between the European Union and Asia occurs by sea through the Suez Canal, and the North Adriatic maritime transport route is the shortest way to reach inland parts of the Old Continent from East Asia.

Italy is potentially a strategic terminal hub in the BRI, one of the most important of the 65 countries involved. First of all, with 477 million tons, Italy is the third European country for traffic throughput, equal to 12.8% of

¹² Memorandum of Understanding between Italy and China on cooperation within the framework of the Silk Road Economic Belt and the 21st Century Maritime Silk Road Initiative.

the total. This helps to explain China's great interest in intensifying relations with the country. The geopolitical advantage of Italy as access to continental Europe has further increased after the Chinese investments in Piraeus (two thirds of the port of Athens has been acquired in 2016 by the Chinese company COSCO) which has now become the main hub of Chinese trade in Europe. However the port of Piraeus, the largest in Greece and one of the most important in the Mediterranean, in fact, is not optimally connected by land to Central Europe. Genoa and Trieste, thus, are still the ideal gateway to the rich and productive heart of continental Europe. More generally, Italian, Croatian and Slovenian port facilities are currently more competitive in geographic terms than Piraeus.

The interest for Italy by China is testified by a number of investments in port facilities. China has already secured a direct presence in Ligurian port logistics since 2016, through a participation of 49.9% in the container terminal of Vado Ligure, where it has contributed to building a new platform that has been fully operational since the end of December 2019, equipped with the latest technologies in terms of automation and capable of accommodating large ships. On the Adriatic side, ports like Trieste, Venice and Taranto are considered strategic hubs for BRI (but not Bari Port). The China Merchants Group seem to have granted new investments with a huge financial exposure (equal to about 1.3 billion euros) in the construction of a deep-sea dock in the port of Venice. Also, in 2018 the China Merchant Group invested 10 million euros in the port of Ravenna with the aim of making this port the European hub of naval engineering and Oil & Gas (strategic and sensitive sector).

On February 2019, Venice signed a memo of understanding with Piraeus to improve overall capacities of the two seaports as important hubs in the Belt and Road scheme. The two port facilities had already set up a weekly ferry service in October 2018. Venice port also has a new rail link to Duisburg, in western Germany, which is the European hub for the land-based Silk Road Economic Belt.

With regards to the dualism between Venice and Trieste, the two ports actually service different markets: Venice port is the main gateway to industrial clusters in northern Italy, importing raw materials and exporting high-added-value products, while Trieste is focused on Central and Eastern Europe. Trieste has a number of on-going interactions with Chinese partners within the BRI. Croatia also wants to attract more investment in transport from China, particularly for the construction of a modern rail connection between Rijeka and Budapest. However, it is likely that Chinese companies will prioritize investments in ports such as Trieste, which is already very well-connected already.

The BRI and the current re-shoring phenomena, represent today a real opportunity to generate local development and growth for countries on both side of the Adriatic with new business and investment opportunities. But to increase its attractiveness, the Adriatic ports should combine their efforts to better manage increased Mediterranean trade resulting from the Belt and Road plan by developing the concept of a South Adriatic hub for the maritime transport. However, without the support of solid rail infrastructure and links, Easter shore seaports cannot become an international trade hub – or a key Belt and Road node.

Italy, and especially Puglia Region, should promote the role of South-Adriatic region in the EU-China Strategy. Any development in the EU – China relationship also directly impacts the Mezzogiorno and the Balkans, being it in the regional infrastructure investment priorities, or the inclusion of the region in the global value chains. Italy being the EU member state in the South Adriatic are, it can become the champion of the coordinated development of the whole node. The intense trade, FDI, people-to-people connections among the three South Adriatic countries, provide an excellent base for an increased coordination and cooperation. A tri-lateral

mutually beneficial co-operation requires intense communication, regular and structured exchanges, and empathy¹³.

Italy seems aware and willing to play a bridging role among China and EU. In July 2020, SCMP reported¹⁴ that: *“Di Maio told foreign minister Wang Yi that Italy was willing to play a “bridging role” in international affairs and deepen China-EU relations.”* It can do the same and even more for its neighbors on the other side of Adriatic.

¹³ Corporate China in Western Balkans, Ed. Cooperation and Development Institute, Tirana 2019

¹⁴ South China Morning Post, 30 July 2020, Italy urged to treat China fairly and positively as Beijing escalates its charm offensive in Europe, accessed on 21 Aug. 2020 at: <https://www.scmp.com/news/china/diplomacy/article/3095339/italy-urged-treat-china-fairly-and-positively-beijing>

V. A Sea and a Node

i) The maritime trade

In the central scenario of the International Transport Forum, international trade, which today represents 50% of global GDP, is expected to increase by 350% by 2050. Trade patterns will be destined to change geographically, driven mainly by changes in distribution of income, in the structure of consumption and in its productivity. As a result, global freight transport volumes will almost quadruple by 2050. The expected growth will create unprecedented challenges for the transport system in general and will lead to an increase in capacity limits and the assessment of scenarios that can occur in the international trade must be considered an important strategic tool for the definition of future transport policies.

China has become the central manufacturing hub of many global business operations. As the novel coronavirus emerged in China and spread globally, preventive actions have had an immediate and significant impact on all economies, and through trade and tourism also on partner economies. The crisis occurs under COVID-19 pandemic is expected to significantly drop down the China's output with repercussions elsewhere through regional and global value chains. The WTO has predicted that world merchandise trade could plummet between 13 and 32% this year depending on how quickly the coronavirus is contained and trade can return to pre-crisis levels. Against Covid-19 uncertainty caused, there is a clear need to keep trade flowing, both to ensure the supply of essential products and to send a signal of confidence for the global economy.

Growth in emerging economies will also continue to exceed those in advanced economies, even after the pandemic started in the early 2020 based on FMN forecast in April 2020. The world imports to developing countries rose to 63% in 2017 and the trade surplus in transition economies has almost doubled in the last 10 years. The OECD International Transport Forum provides for a shift of the gravity center of world trade towards emerging economies.

Worldwide, maritime transport is expected to exceed 250 trillion ton-km by 2050. This increase will be determined by changes in the composition of products, but also by the growth in the average length of the radius resulting from changes in the geographical composition of trade. Traditional trade routes between developed economies will grow relatively slowly, while the growth of trade corridors linking emerging economies will reach an average of 17% per year. By 2050, the freight corridor between the United States and Asia will be subject to the highest flow of goods in both directions, and by 2030, the North Pacific corridor is expected to cross the North Atlantic as the main corridor goods. Significant growth is also expected in the Indian Ocean and in the corridors of the Mediterranean Sea and the Caspian Sea.

The Mediterranean Sea, bordered by the Strait of Gibraltar on the west side and the Suez Canal and the Bosphorus Strait on the east side, is among the busiest areas in the world for maritime activity. There are 480 ports and terminals in the Mediterranean, almost half of which are located in Greece and Italy, and about 20% of Mediterranean ports are located in the eastern Mediterranean.

20% of world maritime traffic passes through the Mediterranean Sea, or 25% of container line services and 30% of oil traffic. By virtue also of its size, a large percentage of the trade in this region (about 80% of the import and export flows) is concentrated in the *Euro-Mediterranean* sub-region (Portugal, Spain, France, Italy, Slovenia, Greece, Cyprus and Malta), which, however, has lost relevance in the last 15 years, for the benefit of the countries of the *South-Mediterranean* (10% - Morocco, Algeria, Tunisia, Libya and Egypt), *East-*

Mediterranean (8% - Israel, Turkey and Lebanon) and the *Balkans* (2% - Albania, Bosnia and Herzegovina, Croatia and Montenegro) sub-region.

A new actor in Mediterranean scene is China. The Asian giant has increased its foreign trade with this area by 841% in the past 15 years; a large part of this trade is accomplished by sea and passes through the Suez Canal which is today the main hub of world maritime traffic. Chinese investments in the Suez Canal and Egypt, together with the presence in the ports of Piraeus and in Israel, Spain and now also Italy, outline a strategy of strong presence in the Mediterranean.

The Mediterranean therefore represents for China the junction and landing point for the two markets, in Northern Europe and in the South the MENA area, which together represent the largest GDP and trade area in the world, capable of combining the manufacturing component with the energy component.

Now, 60% of Chinese trade takes place by sea, making China the world leader in ship transport, with a 35% share of container traffic. By 2020, potential trade growth is estimated to be \$ 780 billion in exports. It is clear, therefore, that in the BRI (*Belt and Road Initiative*) political reasons go hand in hand with economic ones. The initiative is an organic design for a new world architecture. If the project succeeds, it will transform the geopolitical landscape of Eurasia, consecrating China's position as a regional and world power.

ii) Apulia place in Maritime Silk Road – the closest access to TEN-T

Mare Nostrum has always been an articulated space that has never had a single center - polycentrism is its characteristic. In this web of connections, Apulia has great possibilities of integration between the various modes of transport (railways, roads, airports). Concretely Apulia region with its transport infrastructure is the main node connecting Italy (and then EU) with South East Balkans and Black Sea region.

One of the comparative advantages of Apulia transport system is that it provides the closest and the cheapest transport access point for the Maritime Silk Road to TEN-T. Apulia is in a strategic position in the itinerary of the Silk Road towards Europe as the interest of the Chinese for Piraeus and the rest of the Italian Adriatic ports shows. Also the New Silk Road could certainly be an opportunity for Apulia to develop and adapt infrastructures. Institutional agreements between Italy and China can be virtuous if it will involve the Apulian ports.

As for Apulia, the Sino-Italian memorandum had already identified Taranto's seaport as a key asset, along with other six major naval hubs, including Genoa and Venice, by making the Apulian port of Taranto a key part of the Chinese Silk Road in Europe. The Adriatic railway line, which has recently been upgraded, and where finally the doubling of the Termoli-Lesina has received the environmental approval and the positive assessment of Regione Molise, being currently in the tendering phase (see further for the state of the project), connects Apulia to the Baltic-Adriatic corridor, which connects Poland with Bologna (and Ravenna).

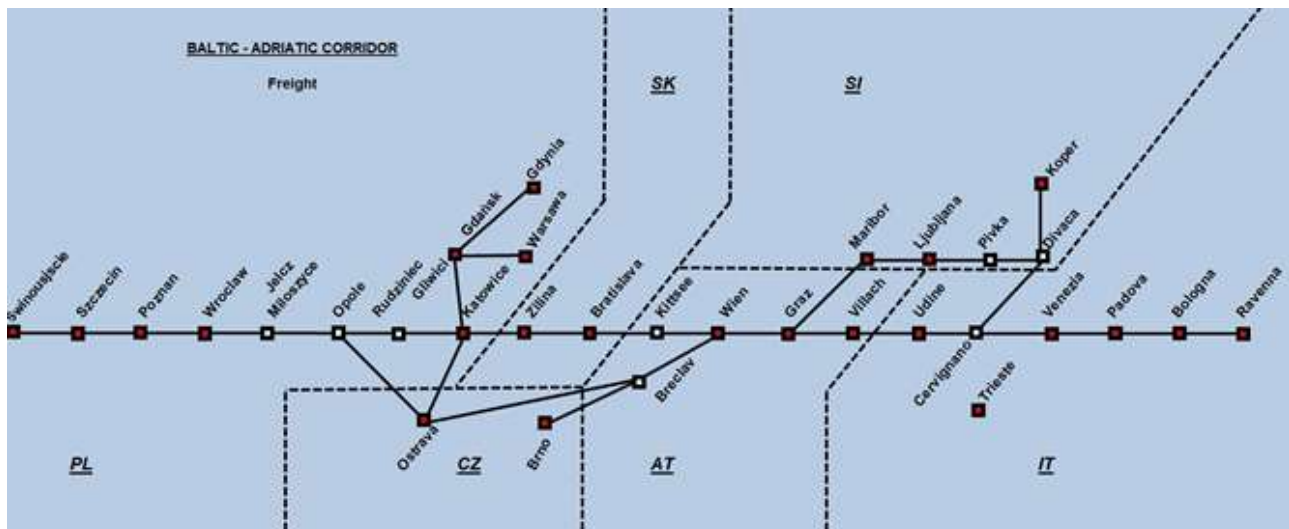


Figure 3. Baltic Adriatic corridor

Source: The Baltic - Adriatic Corridor - Maps, stakeholders and economic and technical info
https://ec.europa.eu/transport/modes/rail/ertms/corridors/baltic-adriatic-corridor_en

Apulia is actually connected through the railway line passing from Bari (and arriving from Lecce on the Adriatic and Taranto on the Ionian Sea). The Intermodal centers of Bologna and of Verona represent vital nodes to interconnect freight flows from the Southern Adriatic area to the Center of Europe. Apulia is connected to the center of Europe also through the Tyrrhenian connection, which with the works on the Bari-Napoli HSR infrastructure from 2026 should free more capacity for freight transport.

iii) Apulia place in EU Connectivity Agenda – the Corridor 8

So far the Chinese strategic approach has been focused on utilization of the Western Balkan route (Port of Piraeus, modernization of rail connection Belgrade-Budapest, etc.). The Eastern Balkans through TEN-T “Orient” Corridor connects Black and Baltic Seas (as well as Ionian and Aegean Seas) and through TEN-T “Rhine-Danube” Corridor connects Central Europe with Black Sea. In this context, Corridor VIII is an important transport corridor that joins the Bulgarian Black Sea coast with the Eastern coast of Adriatic in Durrës and in Bar. The south Adriatic Area of Bari – Durrës – Bar provides the access hub of the Eastern Balkan route (i.e. the Eurasian Land Bridge Corridor connecting SEE with Central Asia via South Caucasus) with the TEN-T Scandinavian – Mediterranean.

The **Port of Durrës** is an important facility for meeting the needs of import and exports of cargos in Albania and it currently processes almost 80% of annual volumes maritime trade of the country. According to INSTAT, 93% of the Albanian ports loading and unloading volume is done at the Port of Durrës. 52% of the country import and export goods transport is done by sea, making the Port of Durrës the most important trade and processing hub in the country. Through this project a water depth of 11.5 m will be obtained for anchoring places.

The rehabilitation, Quays 1 and 2 was approved in 2018. Its goal is the rehabilitation of Quays 1 and 2 in the Western Terminal of the Port of Durrës, which processes all cargo shipping for Albania, including minerals and grain. The total cost of 62.3 million Euro.

The project is still in its initial phases, after the WBIF approved the application prepared and submitted by Albanian authorities. Currently, the project is at a standstill because of the Albanian government shift in priorities towards the rehabilitation of Quays 3 and 4 (instead of the original quays 1 and 2). The project is now in a 'waiting' status, pending the progress of the government request on the change of destination. This change of a previously-approved version by the donors¹⁵, may possibly affect the disbursement of financial support.

The Durrës port rehabilitation will fit into the Durrës - Pogradec - Lin - North Macedonia Rail (Pan European Corridor VIII) as part of the **rehabilitation of the railway Durrës-Pogradec-Lin** and construction of new railway link to Macedonian border. The project as part of the TEN-T network links two EU Countries (Italia and Bulgaria), with intermodal transport maritime and railways and enhance connectivity by rail of candidate (Albania, NM) in Western Balkan region and linking via corridor the other EU candidate country Turkey by maritime/rail.

Table 2. Segments of Corridor VIII – Rail in different phases of PCM

No	Sub-sectors	Mega Projects	Project Title	Project Description/Objective	Total Budget (indicative)	Implementation Status
1	Railway transport	Corridor VIII-Rail Connection	Rehabilitation of the railway Vora - Hani Hotit	Project will improve rail transport which brings economic development to the region of South East Europe and in particular to the countries of the Western Balkans and Converting Shkodra (where the railway line crosses through Vora - Shkodra– Border to MNE) in an international passenger transport mainly in Montenegro and Albania as well as for the inhabitants of the northern part of the Republic of Kosovo.	€ 240,000,000	Detailed Design
2	Railway transport	Corridor VIII-Rail Connection	Rehabilitation of the railway Durrës-Pogradec-Lin and construction of new railway link to Macedonian border.	The project as part of the TEN-T network bridges 2 EU Countries (Italia and Bulgaria), with intermodal transport maritime and railways and enhance connectivity by rail of candidate (Albania, FYROM) in Western Balkan region and linking via corridor the other EU candidate country Turkey by maritime/rail. It enhances connectivity to Serbia, Kosovo and Greece by rail.	€ 335,000,000	Pre Detailed Design
3	Railway transport	Corridor VIII-Rail Connection	Construction of the new railway Pogradec - Korca – border to Greece	This project is related to SEETO comprehensive network and TEN-T Corridor VIII by rail from Pogradec- Korca to Kapshica/Ieropigi border of Albania and Greece and will establish joint border-crossing agreement to model of SEETO and EU MS and implementation for Albania/Greece to reduce CBCs Cross-border procedures on basis of model implementation of ongoing Action Plan of establishing the common border cross railway station of TUZI, under the protocols between both railway infrastructure of Albania and Montenegro.	€ 151,000,000	Feasibility Study

The total indicative budget is 205,000 EUR and the detailed design is complete. Efforts are currently under way to qualify it as part of the Core Network until 2023, with the perspective of an indicative extension of the TEN-

¹⁵ Interview with WBIF representatives

T Orient/East Med Corridor. The feasibility study for the reconstruction of this section and for the preliminary design of the Durrës - Rrogozhina road are complete. The next step is the application to the WBIF for a grant of 50% of the investment value (64 million Euro).

Regarding the **Bulgarian and North Macedonia part**, there is a political will to strengthen the ties between the two states that is articulated with the signing of Treaty of Friendship, Good-neighborliness and Cooperation¹⁶. This will boost the infrastructure cooperation and is another step to finally start working on Corridor VIII.

This will link Black and Adriatic Sea via Bulgaria, Macedonia and Albania. Something that was too long postponed for different reasons, but will be of great benefit for the development of the countries on this East-West axis. During the meeting in July with Zoran Zaev Bulgarian Foreign Minister, Mrs. Ekaterina Zaharieva said that building Corridor VIII would be high priority for both countries.

The situation of Railroad transport on Corridor VIII in Bulgaria and North Macedonia, is as follows:

- Bulgaria is working on the modernization from Burgas to Sofia, with more than 2/3 of the distance being a two-way electrified line. After that, Gyueshevo should be upgraded and electrified from Radomir to the border.
- In Macedonia, new sections should be built from Kumanovo to Gyueshevo and from Kichevo to the border with Albania. These sections are much shorter than those of the corridor Egnatia. Kumanovo-Gyueshevo will be funded from the European Commission and the EIB. The remaining route from Kumanovo to Kichevo is to be modernized only.

Igoumenitsa is further to Bari and Brindisi (Italy) by sea than Durrës. If the destination is southern Italy, at present the time along Corridor VIII is less than that of Egnatia. If the destination is Gibraltar / Atlantic, then the route from Bourgas to Kulata to Igoumenitsa on Struma Motorway, even in terms of the still unfinished A3 route is faster on Corridor VIII in Bulgaria than on A2 in Greece. If the destination is the Suez Canal / Indian Ocean, you can still use Trakia and Struma Highways in Bulgaria to Thessaloniki and Athens instead of Egnatia.

Regarding the other Western Balkan entry gate – the **Port of Bar** - Montenegro's government plans to complete by 2025 the construction of a new container terminal at Bar port at an estimated cost of up to 2.5 billion euro (\$2.9 billion).

This investment project, which is envisaged to be implemented as a public-private partnership, is estimated at 1.6 billion euro, according to the government's Maritime Economy Development Strategy for the period 2020-2030. The container terminal will have a footprint of 140 hectares and will be capable of handling container ships with a capacity of more than 22,000 twenty-foot equivalent units (TEUs).

"By building a new container terminal, Montenegro would have the chance to represent the first port in Europe for ships coming from Asia," is the stated government goal.

¹⁶ Infrastructure Connectivity between the Adriatic and Black Sea regions in the perspective of B&RI and 16+1, CEDR, by S. Rakovski, Oct. 2017, at:

<https://cedr.bg/en/infrastructure-connectivity-between-the-adriatic-and-black-sea-regions-in-the-perspective-of-bri-and-16-1/>

Conclusion

Long-term impact of Covid-19 and of accompanying geopolitical shifts are changing the structure of global production and of supply chains. This will cause shifts in infrastructure links and in human interchange.

The countries of South Adriatic have a long shared history together. They display a high degree of interaction and – in some sectors and areas even integration. Trade, investment, cross-border mobility and exchanges characterize the region.

Facing a world-sized shift in the BRI each country can increase its resilience and improve its adaptation if they work together. Albania and Montenegro business actors can benefit from Italian infrastructure and world-class logistic services to piggy back BRI routes. Puglia (and Italy) can constitute an efficient platform from where EU and other interested parties can have easier and cheaper access to the eastern shores of Adriatic.

Notwithstanding the future developments of relations between China and the West, South Adriatic countries should seize this opportunity to tighten, improve and diversify their exchanges. In the best case scenario, they can even plan for a joint actions of shared interests vis-à-vis third parties.



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