

Crises and Consequences Along the BRI's Northern Corridor

A growing wave of geopolitical unrest and upheaval across Eastern Europe and Central Asia is beginning to pose serious problems for China's economic aims. The risk is especially pronounced along crucial choke points of the northern railway corridor across Eurasia, imperiling Beijing's desired connectivity with EU countries. In the end, the series of crises could seriously curb China's economic influence across the region and increase its dependence on maritime routes once again.

This is not an overstatement of potential impact either.

For context, in 2021 some 15,000 trains traveled on different routes across Eurasia. Furthermore, due to the COVID-19's impact on maritime trade and general disruptions in shipping routes, there has been a boom in the railway trade between China and the EU. In the past year alone, freight transit between China and the EU was up 22 percent from the previous year. While this is a continuing trend of growth, the jump in numbers is extremely notable for both parties.

However, recently, EU-China rail connectivity is increasingly under fire. Whether it be tensions on the Poland-Belarus border, an escalating diplomatic squabble over Taiwan between China and Lithuania, or the specter of military conflict in Ukraine, there is no shortage of issues that could derail this lucrative trade relationship.

Inconvenient Crises

A significant challenge that has come to the fore as of late is found along the far Eastern border of the EU in Poland.

Namely, the manipulated migrant flows at the border between Poland and Belarus quickly escalated into an international crisis and tensions have hardly cooled since.

In rather rapid succession, Belarus levied a threat to cut gas transit to the EU, causing Poland to threaten cutting rail links with Belarus, a crucial economic outlet for one of Europe's poorest nations. For Poland, the cessation of gas transit may mean exacerbating existing energy shortages and a further rise in overall gas prices, not only for Poland but for Europe in general. Stopping rail transit for Belarus may also challenge Belarus' ability to export its products, adding to sanction issues related to its potash fertilizers and petrochemical industry.

The Belarus-Poland border plays a key role for the northern corridor in terms of exporting China's goods to the EU and strengthening connectivity with Central and Eastern Europe. Malaszewicze, on the border between Belarus and Poland, has long handled the majority of the China-Europe traffic and remains a most popular route. In terms of westbound traffic, its share in 2020 was 79 percent of total incoming cargo and, in 2021, came in at a still-hefty share of 68 percent. For eastbound traffic, it was 90 percent and 82 percent, respectively, in the last two years. In the current transport structure, almost all trains reaching the EU pass through the territory of Belarus. By way of this route through Kazakhstan, goods from China reach Belarus and Poland in approximately 10-16 days, although congestion on the route led to much longer transit times.

Any blockade between Belarus and Poland would disrupt Sino-EU value chains. Moreover, the destabilization at the border would further discourage both Chinese and European companies from sending their goods via railway and would force them to choose a longer and more expensive method.

Eyeing Alternatives?

In order to circumvent such issues, a route through Lithuania to Kaliningrad would seem a logical replacement. Indeed, it has been a popular one for transit as well outside of the Poland-Belarus border's aforementioned lion's share of traffic. Yet, tensions between Lithuania and China have complicated the situation.

The suspension of rail freight operations in August, and recent disruptions on the route with some trains passing through Lithuania without stopping for traffic controllers are just some examples of fundamental issues with the route. Furthermore, the blocking of Lithuanian goods in Chinese ports and China's attempt to force multinational companies to cut ties to Lithuania demonstrates that a complete cessation of rail traffic through the country might be on the table.

In the end, Lithuania would seem to be among the least likely nations to garner any Chinese rail traffic at present, especially given China's fiery rhetoric aimed at exacting a price for Vilnius' ties to Taiwan. Surely Beijing does not want to be seen as rewarding the country in any way.

Finally, the escalation between Russia and Ukraine is creating yet another problem for EU-China connections. Ukraine's geographical position and its role as a gateway to Hungary, Slovakia, and Central Europe broadly. It also increases the country's potential as a transit country for the Southern freight corridor towards the Balkans, an increasingly important destination for Chinese investment. However, despite President Zelensky's willingness to turn Ukraine into a new bridge between China and the EU, the ongoing instability in Eastern Ukraine and concerns about a potential Russian invasion make it difficult for the country to serve as a viable route.

The situation in Ukraine may discourage both Chinese and European countries' companies from investing in railway infrastructure development. Secondly, construction work has led to the halting of transit traffic, reducing the potential of Ukraine as a transit country due to the just-in-time principle of value chains. Finally, in addition to the construction works, Ukraine's blockade of rail transit at the Polish border due to the dispute over road transport and Kyiv's demands from Poland to increase the number of permits for drivers create a more complicated situation for Ukraine as a transit country. In the near future, the geopolitical situation of Ukraine and its internal turbulence make it a less-than-viable alternative for China-EU railway trade.

Anticipated Impacts on China

In short, instability in Eastern Europe and tensions along pivotal rail routes undoubtedly damage China's economic interests across the region. In fact, given the transit routes, the damage is due to be felt more broadly as well. Furthermore, this situation may discourage Chinese and European countries from using the Northern corridor altogether as it becomes plagued with uncertainty and potentially high costs.

Besides possible transit cuts, delays and technical problems may damage the BRI's main purpose, that being increased connectivity between the EU and China. Furthermore, despite China's neutral position towards both the Belarus-Poland and Russia-Ukraine border crises, recent interactions of Baltic countries with Taiwan and China's ensuing sanctions against Lithuania have already spurred on a simmering crisis between China and the EU that could boil over at any moment. Even if a worst-case scenario is averted, the "China Threat" perception in Europe is most certainly heightened. The harsh response of Beijing thus far may also lead to a more common EU strategy towards China, once again harming its ability to make inroads to Europe.

For example, according to the proposed anti-coercion law, if a third country is seeking to pressure the Union or a Member State, such as via discriminatory import duties, intentional delays, or refusing authorizations needed to do business, the Union may consider taking countermeasures against the country employing such economic coercion. If this proposal is accepted in the future, the EU may have a chance to apply the same measures to China, such as a selective border or safety checks on goods from a given EU country, and there is a possibility that these measures potentially also influence the efficiency of the northern corridor.

Moreover, due to Belarus-Poland and Ukraine-Russia tensions, the increasing confrontation between NATO and Russia creates challenges for China's balanced and neutral position. Furthermore, the strengthening of the strategic partnership between China and Russia increases anxiety concerns across CEE nations.

Crises also create security issues for China. Any instability in the Northern corridor would increase further dependency on maritime routes which increases China's vulnerability vis-à-vis the U.S. Moreover, this situation would force Chinese companies and provincial governments to share their trade through other corridors, such as the Middle corridor which goes through Kazakhstan, Azerbaijan, Georgia, and Turkey. Of course, these routes are not without their own significant hangups and have not been significantly developed so far.

In the short term, growing uncertainty in the CEE region is likely to undermine China's position in Europe. Over the longer term, Beijing's ability to diversify its trade routes into the EU is immediately a task of immense importance. Ultimately, engagement with the EU bloc, which almost always leverages Beijing's strong economic positioning, may depend upon it.