

Prospects for EU-Asia connectivity

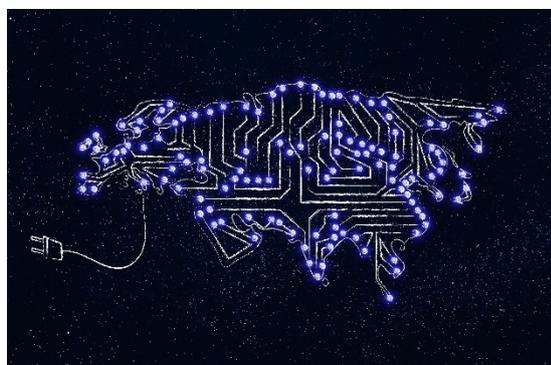
The 'European way to connectivity'

SUMMARY

Asia matters to Europe: home to the world's largest population and fastest-growing economies, Asia is a major trade partner of the EU. Recognising this, the EU has promoted the Asia-Europe Meeting (ASEM), established strategic partnerships with four Asian countries, intensified cooperation with the Association of South-East Asia Nations (ASEAN), and negotiated or concluded free trade agreements with several Asian countries.

As an implementation of its 2016 Global Strategy, the EU has carried out a mapping exercise on Euro-Asian connectivity, followed by the adoption of a joint communication on 'Connecting Europe and Asia – Building blocks for an EU strategy' on 19 September 2018. The strategy proposes that the EU engage with its Asian partners through a sustainable, comprehensive and rules-based approach to connectivity, exploiting existing and planned EU networks. It acknowledges a significant investment gap in connectivity and recognises the need to mobilise and strengthen cooperation with private investors, national and international institutions, and multilateral development banks.

The strategy is part of the EU's contribution to the ASEM12 Summit, which is to take place in Brussels on 18-19 October 2018. Presented by Vice President/High Representative, Federica Mogherini, as the 'European way to connectivity', the strategy was immediately perceived as the EU response to China's Belt and Road Initiative (BRI). This initiative is currently raising concerns in the EU and in several participating countries, some of which are worried about possible 'debt traps'.



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Asia matters to Europe

As revealed in the figures: Asia [accounted](#) for 35.5 % of the EU's goods exports (€618.6 billion) and 45.2 % of its imports (€774.4 billion) in 2016. In 2017, [China](#) alone was the top exporter (20 %, €374.6 billion) and the second-largest importer to the EU, preceded only by the US (11 %, €198.2 billion). Industrial products represented more than 90 % of these flows. Asia, home to the [world's largest population](#) and fastest-growing economies, is seeing global power shifting in its direction. For the EU, the need to address pressing global challenges – including climate change, terrorism, migration and economic growth – in the age of US President Donald Trump's '[America First](#)' doctrine, requires strong [cooperation with its Asian partners](#).

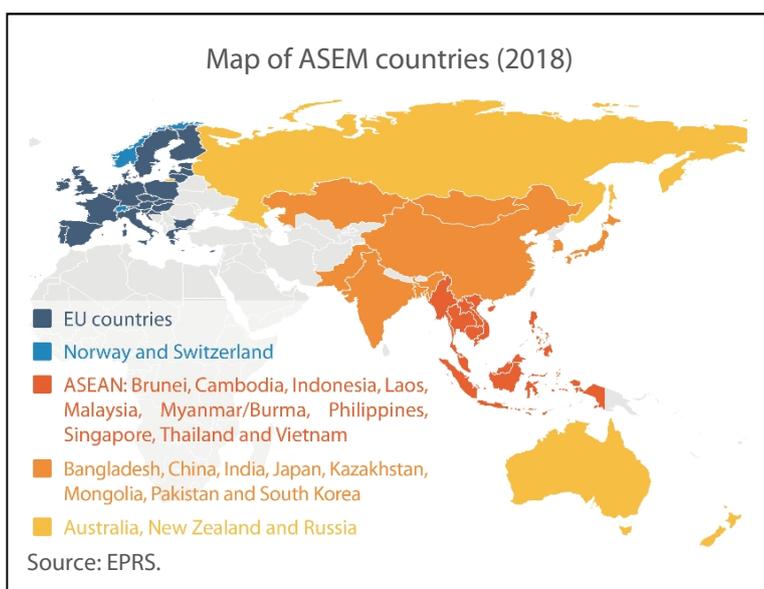
Recognising this, the EU has promoted the Asia-Europe Meeting ([ASEM](#)), which is a unique, informal platform for dialogue and cooperation between Asia and Europe. The ASEM, which also has a parliamentary dimension ([ASEP](#)), brings together 53 partners from across Europe and Asia, representing around 60 % of the global population, 65 % of global GDP, 55 % of global trade and 75 % of global tourism. The EU has also established strategic partnerships with four Asian countries: China, India, Japan and South Korea. It has intensified cooperation with the Association of South-East Asia Nations ([ASEAN](#)), the sole successful example of a regional structure in Asia. It has concluded free trade agreements (FTAs), first with

[South Korea](#), then with [Singapore](#), [Vietnam](#) and [Japan](#); it has launched FTA negotiations with [India](#), [Indonesia](#), [Malaysia](#), [the Philippines](#) and [Thailand](#), and negotiations on an EU-China Comprehensive Agreement on Investment ([CAI](#)). The 2016 [Global strategy](#) for the European Union's foreign and security policy, recognising the nexus between European prosperity and Asian security, calls for a deepening of economic diplomacy and an increased security role for the EU in Asia. In November 2017 in Manila (the Philippines), European Council President, Donald Tusk, [attended](#) the latest East Asia Summit ([EAS](#)). The EU has applied for [membership](#) of this 18-member organisation.

Connectivity in the ASEM framework

The ASEM Foreign Ministers Meeting, which took place in Nay Pyi Taw (Myanmar/Burma's capital) on 20-21 November 2017, agreed on a [definition of connectivity](#). It involves bringing countries, people and societies together; enhancing Europe-Asia ties on economic, political, security, social and cultural issues; establishing connectivity in respect of transport, digital links, energy, education, research, tourism and institutions; and contributing to the UN 2030 Agenda for Sustainable Development. The definition was prepared by the ASEM Pathfinder Group on Connectivity ([APGC](#)).

On 15 October 2018, the APGC is to launch the [ASEM sustainable connectivity portal](#). Created by the European Commission's Joint Research Centre, the portal aims to provide a comprehensive and technically sound measurement framework to measure and monitor progress with the help of two main indexes (connectivity and sustainability), combining 49 indicators. It will support ASEM discussions and help to create a visual space for cooperation and policy formulation, while also enhancing the visibility of ASEM and its partners as a platform for Europe-Asia cooperation. The launch will precede the [ASEM12 Summit](#), which is to take place in Brussels on 18- 19 October 2018 under the motto 'Global partners for global challenges'.



The EU strategy on connecting Europe and Asia

Following the 2016 Global Strategy, the European Union's External Action Service (EEAS) and the Commission carried out a mapping exercise, in which they examined the existing policies, instruments and projects related to Euro-Asian connectivity. The main findings of this exercise were summarised in a [joint staff working document](#), published in November 2017.

On 19 September 2018, the Commission and the Vice President/High Representative adopted a joint communication on [Connecting Europe and Asia – Building blocks for an EU strategy](#). An integral part of the EU's contribution to ASEM12, this document sets out the EU's vision for a strategy to better connect Europe and Asia. It is also related to the implementation of the EU Global Strategy and is to be read together with the Commission's proposal for the 2021-2027 [MFF](#).

The joint communication acknowledges the EU's experience in creating its internal market through a sustainable, comprehensive and rules-based approach to connectivity. It proposes that the EU engage with its Asian partners along three strands:

- 1 efficient connections and networks between Europe and Asia through priority transport corridors (including air, sea and land transport) and high-capacity network links that would develop areas such as digital connectivity, energy connectivity platforms and people-to-people connectivity, whose synergies could spur innovation;
- 2 partnerships for sustainable, open, inclusive and rules-based connectivity with countries in Asia, and with regional and international organisations;
- 3 sustainable finance ensured through diverse financial tools and improved mobilisation of resources, reinforced leveraging of EU financial resources and strengthened international partnerships, to address a significant investment gap and create fair terms for business.

Enhanced Europe-Asia connectivity could exploit the existing and planned EU networks. The EU's trans-European transport networks ([TEN-T](#)), currently being extended to countries bordering on Asia, should connect with Asian networks. The EU digital single market provides a blueprint for enhancing trade in digital services, while its [Digital4Development](#) strategy fosters socio-economic development. To make cooperation more effective, the EU is to strengthen the existing bilateral (e.g. the [EU-China Connectivity Platform](#)), regional and international partnerships, and build new ones.

As for the resources needed to improve connectivity, the strategy quotes the [Asia Development Bank's estimate](#) of €1.3 trillion a year worth of infrastructure investment until 2030, needed to maintain Asia's growth momentum and address the climate change challenge. The strategy further points out that the investment needed to be made in the TEN-T is estimated at €1.5 trillion over the 2021-2030 period. While it does not aim to establish an investment plan, the strategy acknowledges that the innovative measures proposed for the next MFF could spur public and private investment in connectivity. It furthermore advocates strengthened cooperation with the Member States' public and private financial institutions, including sovereign funds, and with the international financial institutions and multilateral development banks. Last but not least, the strategy also supports initiatives ensuring a level playing field for business, and recommends broader accession to the World Trade Organization's (WTO) Agreement on Government Procurement ([GPA](#)), and swift adoption of the Commission's proposal on the International Procurement Instrument ([IPI](#)).

The 'European way to connectivity' and China's BRI

When presenting the joint communication, Federica Mogherini [clarified](#) that it was 'not a reaction ... to another initiative... There is no link with the calendar nor with the timeline of others'. However, analysts all identified the strategy as the EU's [response](#) to China's Belt and Road Initiative ([BRI](#)). A report by 27 EU Member States' ambassadors to Beijing leaked by German newspaper [Handelsblatt](#)

in April 2018 qualified the BRI as Beijing's tool for shaping globalisation according to its interests, while barring free trade and giving subsidised Chinese companies an advantage over EU ones.

This goes hand in hand with growing [concern](#) – hinted at by the [European Parliament](#) – that the Chinese are trying to break the EU's unity through the [16+1](#) sub-regional cooperation format. The latter brings together China and 16 central and eastern European countries (11 EU Member States and five Balkan countries). Concern is on the rise in several [Asian](#) (e.g. [Malaysia](#), [Pakistan](#)), [Pacific](#) and [African](#) countries – and also in [Montenegro](#) – that their participation in the BRI could be a debt trap, after Sri Lanka, unable to repay China a loan under the BRI scheme, had to give it a [99-year lease](#) on the Port of Hambatota, allegedly as a result of Chinese '[debt trap diplomacy](#)'.

The proposed EU strategy on connecting Europe and Asia aims to address the above-mentioned concerns: named by the VP/HR as the '[European way to connectivity](#)' it is based on mutual interests, common objectives, transparency, non-discriminatory market practices, a level playing field for businesses, high environmental and social standards benefitting the local communities, and fiscal and financial sustainability of infrastructure projects. From now on, the strategy – which has been received well by the Chinese [media](#) and [authorities](#) – needs to start being implemented: financing Europe-Asia connectivity is the challenging prospect in the years to come.

US, Japan and India's answers to the BRI

Following the adoption of the BUILD (Better Utilization of Investments leading to Development) [Act](#) in July 2018, the US has started [creating](#) the United States International Development Finance Corporation (USDFC), which is to absorb the Overseas Private Investment Corporation ([OPIC](#)) agency. In July 2018, the US also announced the creation of a US\$ 13 billion [fund](#) to support infrastructure investment in the Indo-Pacific, which would be further reinforced by a US-Japan-Australia '[trilateral partnership](#)', to be set up for the same purpose. The goal is explicit: according to the OPIC, 'At a time when China is investing heavily in emerging markets under a state-directed model, the U.S. model offers an alternative for advancing development in a manner that is financially sound, adheres to high standards and avoids debt traps.'

To pursue its Free and Open Indo-Pacific Strategy ([FOIPS](#)), in May 2015 Japan set up a US\$110 billion initiative 'Partnership for quality infrastructure' ([PQI](#)), upgraded to 'Expanded partnership for quality infrastructure' ([EPQI](#)) in May 2016 with an increased US\$200 billion budget, to finance infrastructure projects across the Indo-Pacific in 2017-2021. In May 2017, Japan and India launched the [Asia-Africa growth corridor](#). People-to-people partnerships are to be a unique feature of this initiative.

The [International North-South transport corridor](#) is a multi-modal transport corridor inaugurated in [January 2018](#), though already agreed in 2000. It allows India to connect with Russia and northern Europe while circumventing Pakistan and China, and is part of New Delhi's [Central Asia policy](#).

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