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 five strategic partnerships – including with the Association of South-East Asian Nations (ASEAN) – and negotiated or concluded free trade agreements with several Asian countries.

In September 2018, the EU adopted a joint communication on 'Connecting Europe and Asia – Building blocks for an EU strategy'. 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 the presence of 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.

Analysts welcomed the strategy as the EU response to China’s Belt and Road Initiative (BRI). This initiative has been raising concerns in the EU and in several participating countries, some of which are worried about possible 'debt traps'.

Echoing these concerns, the European Parliament has warned that the 17+1 format of cooperation between China and 17 central and eastern European countries could undermine the EU's common position towards Beijing. In January 2021, MEPs called for the creation of a global EU connectivity strategy as an extension of the current EU-Asia connectivity strategy.

In September 2019, the EU and Japan launched the EU-Japan Partnership on Sustainable Connectivity and Quality Infrastructure. In December 2020, the EU and ASEAN issued a joint ministerial statement on connectivity. Financing Europe-Asia connectivity is a key challenge in the years to come, together with the challenges highlighted by the coronavirus crisis.

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Asia matters to Europe

As revealed by the European Commission's DG Trade statistics, Asia accounted for 28% of the EU's goods exports (€619.2 billion) and 40% of its imports (€801.4 billion) in 2019. In 2019, China alone was the top exporter (18.7%, €362.6 billion) to the EU and the second-largest importer (9.3%, €198.2 billion) from it, preceded only by the US (note that 2019 numbers refer to the EU-28, in a retroactive calculation China would be the third-largest importer after the US and the UK). Industrial products represented more than 90% of these flows. Asia plays a major role in the EU supply chain. Home to 61% of the world's population (4.7 billion) and the fastest-growing economies, Asia is seeing global power shift in its direction: prior to the pandemic, it was estimated that in 2020 its gross domestic product (GDP) would overtake the rest of the world combined. Despite the pandemic, China was the only big economy to grow in 2020 (2.3%).

The Asian way towards integration

Not only is Asia growing richer but it is also becoming more integrated. In November 2020, 15 Asia-Pacific countries signed the Regional Comprehensive Economic Partnership (RCEP), the first trade agreement bringing together China, Japan and South Korea. The deal accounts for almost a third of global GDP and includes ASEAN countries, Australia and New Zealand, while India opted out. According to analysts, the agreement would likely make the signatories shift their supply chains away from Europe, as doing so would simplify the diversification of their global supply chains with Asia. The RCEP could also jeopardise the EU’s ambitions to be a rule-maker in the global digital economy. In answers given to oral questions by the Members of the European Parliament, the European Commission recognised a potential for diversion of trade to the detriment of EU exports, noted that the RCEP appears to fall short of EU expectations on issues like overall market access coverage, but also as regards rules and enforcement, and that the agreement does not include disciplines on subsidies or state-owned enterprises and also lacks commitments on labour, the environment or climate.

Seven Asia-Pacific countries (Australia, Brunei Darussalam, Japan, Malaysia, New Zealand, Singapore and Vietnam) participate in the 11-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), in force since January 2019. The US pulled out of the agreement, though analysts expect the Biden administration to announce its intention to rejoin it, while the UK applied to join it in February 2021.

Asia, on a par with North America, is the region with which the EU is most deeply economically interwoven; the EU therefore needs strong cooperation with its Asian partners to address pressing global challenges, among them climate change, terrorism, migration (and more recently economic recovery in the aftermath of the coronavirus crisis, as well as geostrategic issues related to the Indo-Pacific region, including the security of its sea lane).

Recognising this, the EU has promoted the Asia-Europe Meeting (ASEM): a unique, informal platform for dialogue and cooperation between Asia and Europe. The ASEM, which also has a parliamentary dimension (ASEP, where the European Parliament is represented through ad hoc delegations), 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. ASEM’s only permanent institution is ASEF (Asia-Europe Foundation), promoting greater mutual understanding between Asia and Europe through intellectual, cultural and people-to-people exchanges.

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 Asian Nations (ASEAN), a rare successful example of a regional structure in Asia. In December 2020, EU-ASEAN relations were also upgraded to the level of a strategic partnership. The EU has a framework agreement and a framework participation agreement on crisis management operations with South Korea and a strategic partnership agreement (SPA) with Japan. The EU has concluded free trade agreements (FTAs), first with South Korea, then with Singapore, Vietnam (later split into an FTA and a separate investment protection agreement, (IPA)) and Japan (with which an IPA is currently being
negotiated); it has launched FTA negotiations with India, Indonesia, Malaysia, the Philippines, Thailand, Australia and New Zealand. In December 2020, the EU reached an agreement in principle on investment with China (CAI). It has signed an enhanced partnership and cooperation agreement (EPCA) with Kazakhstan, has concluded one with Kyrgyzstan and is negotiating one with Uzbekistan.

The 2016 Global Strategy for the EU’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. The EU has applied for membership of the 18-member East Asia Summit (EAS) and is expected to publish its strategy on the Indo-Pacific region in 2021.

Connectivity in the ASEM framework

At their meeting in Nay Pyi Taw (Myanmar/Burma’s capital) in November 2017, the ASEM foreign ministers 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).

In October 2018, the APGC launched the ASEM sustainable connectivity portal. Created by the European Commission’s Joint Research Centre, the portal aims to provide a comprehensive and
technically sound framework to measure and monitor progress with the help of two main indexes (connectivity and sustainability), combining 49 indicators. It supports ASEM discussions and helps 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 preceded the ASEM12 Summit, which took place in Brussels in October 2018 and where sustainable and rules-based connectivity was a common theme of the leaders’ discussions.

The EU strategy on connecting Europe and Asia

Following the 2016 Global Strategy, the European Union 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.

In 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, setting out the EU’s vision on how 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 (then) proposal for the 2021-2027 multiannual financial framework (MFF), subsequently adopted in December 2020.

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, the creation of which would promote the development, among other things, of digital connectivity, energy connectivity 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. According to the strategy laid out in the communication, 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 2015 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 2021-2027 MFF could spur public and private investment in connectivity, namely the new European Fund for Sustainable Development, rebranded EFSD+, which will provide financing to catalyse additional public and private capital. It furthermore advocates the involvement of the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), in cooperation with the Member States’ public and private financial institutions (including sovereign funds), international financial institutions and multilateral development banks, in line with international standards.
Last but not least, the strategy also supports initiatives ensuring a level playing field for business and recommends broader accession to the Agreement on Government Procurement (GPA) of the World Trade Organization (WTO), and swift adoption of the Commission’s proposal on the International Procurement Instrument (IPI). The latter is still under discussion in the Council of the EU; meanwhile, the publication in January 2021, under President Joe Biden, of the ‘Buy American’ executive order for US federal procurement contracts, may help to speed up its adoption, as the IPI would provide the EU with a tool giving it leverage with regard to trading partners that do not open up their government procurement contracts to international bidders.

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

When presenting the joint communication, former VP/HR Federica Mogherini clarified that it was ‘not a reaction ... to another initiative’. However, analysts mostly identified the strategy as the EU’s response to China’s Belt and Road Initiative (BRI). It is worth mentioning that the EU in its March 2019 strategy on China defined the country as a ‘systemic rival’. A report by 27 EU Member States’ ambassadors to Beijing leaked by the German newspaper Handelsblatt in April 2018 qualified the BRI as China’s tool for shaping globalisation according to its interests, while barring free trade and giving subsidised Chinese companies an advantage over EU ones. Some 18 EU Member states have joined the BRI, including Italy, which signed a memorandum of understanding with China in March 2019, being the only G7 country to have done so. There is growing concern that China might be trying to destroy the EU’s unity. An example of this is the 16+1 sub-regional cooperation format, bringing together China and 16 central and eastern European countries (11 EU Member States and five Balkan countries), which became 17+1 after Greece joined the framework in April 2019. However, several EU members of the format have recently challenged its relevance.

The European Parliament voiced these concerns in its resolution of September 2018 on the state of EU-China relations, calling on Member States participating in the (then) 16+1 format to avoid compromising national and EU interests for short-term financial support and long-term commitments to Chinese involvement in strategic infrastructure projects, potentially undermining the EU common positions on China. MEPs underlined that BRI projects employ very little local labour, involve receiving country and third-country contractors to a limited extent (about 86% of BRI projects involve Chinese contractors), construction materials and equipment are imported from China, tenders lack transparency, and there is a risk of prevalence of Chinese standards instead of international ones.

Several Asian (e.g. Malaysia, Pakistan), Pacific and African countries are expressing increasing concerns 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’. Similar concerns has been voiced about some BRI schemes in the Western Balkans, e.g. a highway project in Montenegro and a coal power plant unit in Bosnia and Herzegovina.

The proposed EU strategy on connecting Europe and Asia aims to address the above-mentioned concerns: identified by the then 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. The next challenge of the strategy – which has been received well by the Chinese media and authorities – lies in its implementation.
The US, Japan and India’s answers to the BRI

After the adoption of the Better Utilization of Investments leading to Development (BUILD) Act in July 2018, the US started creating the US International Development Finance Corporation (DFC), Washington’s development bank, which absorbed the Overseas Private Investment Corporation (OPIC) agency, which in 2018 alone invested over US$640 million into projects in Asia. During the July 2018 first Indo-Pacific business forum— the leading event to promote trade, investment, and economic cooperation between the US and its Indo-Pacific partners — then US Secretary of State, Mike Pompeo, announced the launch of Department of State infrastructure and connectivity projects worth US$113 million in the Indo-Pacific. 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.’ The forum was the opportunity to launch two more initiatives: the Digital Connectivity and Cybersecurity Partnership (DCCP) to promote an open, interoperable, reliable and secure internet in the region; and the Enhancing Development and Growth through Energy (Asia EDGE) one, to develop sustainable and secure energy projects.

After the forum, the US international development agency, USAID, dedicated US$441 million to expanding partnerships with governments, civil society and the private sector in Indo-Pacific countries. USAID work is done in the framework of the Infrastructure Transaction and Assistance Network (ITAN), an initiative to advance sustainable, transparent, high-quality infrastructure across the Indo-Pacific region. A US-Japan-Australia trilateral infrastructure partnership established through a memorandum of understanding (MOU), signed in November 2018, aims to strengthen coordination and cooperation among like-minded countries in order to drive sustainable economic growth in the Indo-Pacific.

As the BRI now also covers a number of Latin America countries, in December 2019 the US government launched the Growth in the Americas (América Crece) initiative to foster private investment for energy, road, ports and airport projects in Latin American countries. While no additional funding has been earmarked, América Crece is to leverage existing programmes, including the DFC.

According to the ISEP, the Biden administration, which has announced the end of US funding to fossil fuel projects abroad, is preparing an effective counteroffer to the BRI in providing a greener alternative, while also supporting civil society and local governance capacity to strengthen accountability measures in BRI recipient countries.

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’ (EPOI) in May 2016 with an increased US$200 billion budget, to finance infrastructure projects across the Indo-Pacific in 2017-2021. At first, Tokyo did not participate in the BRI, but in 2017, faced with the stance of the US administration on the Indo-Pacific, it switched to a policy of conditional engagement. In December 2015, Japan and India (the latter has not joined the BRI) shared their Vision 2025, which includes several references to connectivity in the Indo-Pacific region (a concept reiterated in September 2017). 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.

Agreed upon back in 2000 and inaugurated in January 2018, the International North–South multimodal transport corridor (INSTC) allows India to connect with Russia and northern Europe while circumventing Pakistan and China, and is part of Delhi’s Central Asia policy. India has also engaged in other Eurasian corridors: it developed the Chabahar port in Iran, launched the Project Mausam, a cultural initiative (which analysts say needs revamping) aiming to re-establish Delhi’s ties with ancient trade partners across the littoral of the Indian Ocean; and joined the Ashgabat Agreement, implemented to establish an international multimodal transport and transit corridor between Central Asia and the Persian Gulf.

Cooperation with like-minded countries could be key to the success of the strategy. In September 2019, the first edition of the Europa Connectivity Forum in Brussels was held under the title ‘EU-Asia Connectivity: Building Bridges for a Sustainable Future’. At the forum, the EU and Japan launched the EU-Japan Partnership on Sustainable Connectivity and Quality Infrastructure ‘based on sustainability as a shared value’. The partnership focuses on sustainability, a high level of socio-economic and environmental standards and a level playing field, as a way to address the BRI’s shortfalls, including a lack of transparency, a massive use of tied financing and uncertain financial
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and climate sustainability. Along the same line, the EU and ASEAN continue to promote connectivity within and between the two blocs. When in December 2020 the EU and ASEAN elevated their relations to a strategic partnership, the joint ministerial statement on connectivity underlined a common concern that connectivity should uphold ‘the spirit of peace, inclusiveness, development, cooperation, economic, fiscal, financial, social and environmental sustainability, a level playing field for relevant stakeholders, comprehensiveness and be rules-based and of mutual benefit, as well as to adhere to and effectively implement relevant international norms and standards’.

Challenges along the path of EU-Asia connectivity

As already mentioned above, financing Europe-Asia connectivity will be an ambitious endeavour to accomplish, and its success may depend on the extent to which additional funds will be raised from the private sector, as well as from national, international and multilateral financial institutions. Moreover, specific difficulties may be encountered with regard to some parts of the Asian continent.

As for the ASEAN states, for instance, it has been argued that the political economy, political leadership or general clientelist attitude of many countries in the region may clash with the EU’s comprehensive approach to connectivity. In fact, the EU’s high standards for normative, regulatory and political rights may prove challenging in a region where, according to Transparency International, ‘the past few years have also seen an overall weakening of democratic institutions and political rights and shrinking civil society space, which have further impeded progress in combating corruption’. While cooperation with China in the region could prove to be difficult (see below), democratic countries such as Japan, South Korea and Taiwan appear as potential EU partners in coordinating connectivity according to high standards and with respect for open regionalism.

Some region-specific issues might emerge in Central Asia, whose formerly Soviet republics were closed to the outside world and were exclusively connected to Moscow. In the years following the demise of the Soviet Union, the Central Asian infrastructure networks deteriorated to the point of almost non-existent connectivity among the countries in the region. Later, economic transparency and economic development in Central Asia was affected by informal, clientelist, corrupt and criminal networks. Furthermore, regional integration schemes, such as the Collective Security Treaty Organisation (CSTO) and the Eurasian Economic Union (EAEU), seek to guarantee Russia’s leading role in its ‘near abroad’ at the detriment of other players, which could make it difficult for the EU to develop connectivity initiatives there.

As for cooperation with China on connectivity in the region, some analysts underline the difficulty of combining the EU’s normative and rule-based approach with BRI dynamics, dominated by China’s state-operated enterprises and geopolitical interests, in the context of which Beijing would offer the EU a ‘junior partnership on connectivity the Chinese way’. Others point to a possible post-pandemic readjustment of the BRI through careful negotiation and compromise with the EU, as a way of achieving synergy and synthesis between the two approaches. In order to achieve this synergy, it has been argued that the EU and China could negotiate a specific code of conduct or another form of consensus on joint rules, possibly by using a tool that is already in place: the EU-China connectivity platform. Currently limited to the transport sector, this platform could be extended to other areas of connectivity, including digital and health.

The European Parliament and connectivity

The European Parliament, in its report on ‘Connectivity and EU-Asia relations’ (rapporteur: Reinhard Bütikofer, Greens/EFA, Germany) adopted in January 2021, calls for the creation of a global EU connectivity strategy as an extension of the current EU-Asia connectivity strategy. Given the fundamental role that connectivity plays in the geopolitical relations of the EU, a global strategy would strengthen both its role as a geopolitical and geo-economic actor and its potential to forge stronger partnerships with democracies around the globe that share its fundamental values. The Parliament calls for the promotion of fiscally, economically, socially and environmentally sustainable
connectivity, and asks for the allocation of adequate human and financial resources, where investments are made with respect for the public good, transparency and market efficiency, while avoiding debt entrapment. The MEPs welcome the establishment of the EU-Japan Partnership on Sustainable Connectivity and Quality Infrastructure, and express support for the ongoing negotiations for building a connectivity partnership with India. The report also highlights the lessons learnt from the pandemic regarding the importance of coordinated measures to ensure that global transportation routes and supply chains remain open and secure.

EU-Asia connectivity and Covid-19

An October 2020 study on 'Impact of Covid-19 on ASEM's Connectivity agenda' financed by the EU Partnership Instrument makes suggestions on how Asia and Europe should start rethinking their connectivity agenda and priorities in the wake of the coronavirus health crisis: synergising diverging connectivity strategies devised by various ASEM actors; adding a lot more data analytics and qualitative analysis on the different connectivity strategies to the ASEM sustainable connectivity portal; prioritising common ASEM standards for sustainable connectivity (as set out in the EU-Japan Partnership on Sustainable Connectivity and Quality Infrastructure), which should characterise the 'greening and cleaning' of the BRI as announced by Chinese President, Xi Jinping, in April 2019; mainstreaming the climate agenda in all policies; addressing the digital divide; and giving multilateral banks a major role as financing sources.

AESCON, the Asia-Europe Sustainable Connectivity Scientific Conference held in September 2020, pointed out, in support of the above, that the pandemic has emphasised the need to invest in connectivity based on common standards in order to build trust between Europe and Asia in times of social distancing. This will support recovery and help the development of more sustainable, inclusive and resilient economies.

The pandemic has also highlighted some of the EU's trade dependencies that make it vulnerable. It has prompted a call for enhanced EU 'economic sovereignty' and for defining a set of Europe-based 'strategic capabilities'. Subsequently, EU companies may diversify their supply chains in order to reduce their dependence on China.

ENDNOTES

1 At the World Economic Forum in Phnom Penh in 2017, Cambodian Prime Minister, Hun Sen, said: 'Other countries have a lot of ideas, but no money. But for China, when it comes with an idea, it also comes with the money. That is the hope of all countries around'.

2 'It is hardly surprising, that ASEAN's most corrupt country, Cambodia, is also the most open to Chinese infrastructure investments', R. Biedermann, The EU's Connectivity Strategy Towards ASEAN: Is a 'European Way' Feasible?, European Foreign Affairs Review, 1 December 2019, Vol 24 (4), p. 577-596.

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