



Next steps in connecting Europe and Asia

The EU has set out an ambitious connectivity strategy with Asia. Antti Tulongen argues the priority must be to build on the existing partnership with Japan and seek other like-minded countries in Asia

Connectivity is the new buzz word. Building railways, roads, ports, power plants and energy grids have become key factors for states vying for geopolitical influence. The European Union has declared its wish to be a geopolitical actor and hence it has set out an ambitious connectivity strategy with Asia as its focus.

In September 2019, the then President of the European Commission, Jean-Claude Juncker, and Japanese Premier Shinzō Abe signed a partnership for sustainable connectivity in Brussels, just a year after the EU published its connectivity strategy blueprint. Two years later, the EU is still waiting for a promised budget for its ambitious strategy, and also mulling potential new partners.

Why a connectivity strategy?

The EU connectivity strategy and the follow-up partnerships are widely viewed as a riposte to China's Belt and Road Initiative (BRI), a modern 'Silk Road' which was launched with great fanfare in 2013 and now has hundreds of projects in over 60 countries under its belt. The EU's connectivity strategy does not mention China but Juncker's statement that the EU would help develop infrastructure "*without mountains of debt*" or a reliance "*on a single country*" was quite clear.

The unsustainable levels of debt incurred by developing countries accepting BRI projects have been heavily criticised. Many fear that the massive debts would translate into Chinese influence over the countries' politics or seizure of strategic assets. The Chinese takeover of the Hambantota port in Sri Lanka is often cited as an example. In addition, BRI projects have been criticised for lack of consideration for their social and environmental impacts, and at times of unflattering reports of poor construction quality.

China does seem to understand these concerns and President Xi stated in November 2019 at the second BRI Forum that the BRI emphasis in future would be on sustainability, financial and environmental.

Shinzō Abe and Jean-Claude Juncker at the Europa Connectivity Forum, Brussels, 27 September 2019



In contrast to the BRI, the EU has placed emphasis on infrastructure development that is *“comprehensive, transparent, high quality, sustainable, and rules-based.”* Sustainability refers to fiscal, environmental, social as well as economic aspects of the projects while the comprehensive angle means a full spectrum of connectivity infrastructure from digital networks to railroads and ports. The EU identifies itself as a success story of regulatory harmonization and connectivity in Europe and it believes it has useful experience for other regions.

However, in fact the geopolitical aspirations could be secondary to the economic incentives to pursue a share of the Asia’s immense infrastructure markets. The EU estimates that Asia needs €1.3 trillion in infrastructure investment

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annually for the next two decades to reach its full growth potential. There is a real concern that China's BRI could be undercutting European companies and this is why the EU places so much emphasis on rules-based development, a reference to internationally agreed technical standards and rules for procurement.

A survey of 130 European companies by the European Chamber of Commerce in China published in January 2020 revealed that since the inception of BRI in 2013 only two European companies had won BRI tenders through public means. Chinese state-funded enterprises had many advantages over EU companies that one could not talk of a level playing field. European companies found success only when pulled in by Chinese partners or local governments to provide technical expertise not available in China.

The imposition of Chinese standards is a major concern for European companies. The standards ensure that any follow-up projects to expand the infrastructure must also be Chinese to avoid interoperability issues.

Moreover, any neighbouring country wishing to connect its infrastructure to BRI built networks will have to consider Chinese providers to ensure smooth cross-border connectivity. With international standards sidelined, European companies, as well as most non-Chinese companies, are in danger of being locked out from certain markets for years to come.

Finance

The EU's connectivity strategy has been hampered by lack of cash. For 2010-2016 the €300 million in infrastructure funding for Asia was leveraged by factor of eight to €2.5 billion in grants and loans. For 2021-2027 the Commission has proposed a more robust external action investment framework to the tune of €60 billion in total, or €8.5 billion annually.

While the EU has increased its commitment it is still far behind China. The estimates for total investment under China's BRI vary from hundreds of billions to up to eight trillion US dollars, enabled by generous seed funds provided by Chinese government and state-led banks working in unison. With other projects, and Brexit straining the EU budget, the EU is unlikely to be able to match China euro to renminbi. This is why the EU is mustering like-minded partners to support its own strategy.

Partners

However, so far the EU and Japan partnership has remained vague in plans for next steps and lacks concrete projects. The EU partnership with Japan has been more an affirmation of shared values in their approach to infrastructure development to counter the China's narrative.

It remains to be seen if the partnership could eventually result in bundling current diverse range of funds, financial instruments and institutions under a joint-investment vehicle that could better match BRI. It is worth noting that in South-East Asia alone, Japanese backed infrastructure projects amount to \$321.8 billion compared to \$255.32 billion in Chinese-backed projects.

The EU hopes that the partnership with Japan, still the largest infrastructure developer in Asia, will be followed by similar partnerships with other countries in the region. Australia and South Korea who also have infrastructure initiatives are the first likely choices for new partnerships.

The United States has recently unveiled its own plan to develop infrastructure in Asia, though cooperation with Washington is complicated by differences of view in other areas – not least by the America First policy driving US foreign engagement.

In addition to the already mooted partnerships, the EU should perhaps consider widening its search for partners, with Singapore being an obvious candidate. It occupies a key strategic position, it is a global financial centre and, like Europe, shares a strong commitment to a rules-based international system. The government in Singapore has made infrastructure development in Asia a top priority for its future as an economy relying on international trade, and sees its financial services sector as its key asset.

Singapore shares EU values and believes it has the right mix of skills and expertise to facilitate projects in Asia. With its excellent record in terms of fighting corruption and its first-class diplomatic network, Singapore would certainly be an asset to promote transparency and sustainability in the region. It also has good ties to China and could promote mutual understanding between the EU and Chinese approaches.

The Monetary Authority of Singapore (MAS) has backed financing and consulting corporations such as Infrastructure Asia, Clifford Capital and Surbana Jorong to make this vision a reality. Singaporean banks already provide a share of loans or expertise in 60 percent of the infrastructure projects in South East Asia. Singapore's ability to leverage private sector funding in infrastructure could suit the EU well to augment its relatively meager infrastructure investment budget.

Singapore has already helped finance BRI projects issuing US\$145 billion US dollars in BRI bonds in 2016 and US\$600 million of BRI bonds in 2017. The Industrial and Commercial Bank of China (ICBC) issued US\$2.2 billion of bonds in Singapore 2019 for green BRI projects. The Singapore-China partnership has also spawned several initiatives, including the flagship China-Singapore (Chongqing) Connectivity Initiative (CCI), which in 2019 expanded from connecting Singapore to Chongqing to connecting Western China to ASEAN in general.

Singapore's engagement with China through BRI is part of its broader geopolitical strategy to 'sozialize' China to its neighbourhood in South East Asia and to promote rules-based engagement. Singapore has simultaneously kept China at arm's length by maintaining close cooperation with the other geopolitical players in the region, such the US and Japan.

The strategy allows Singapore to hedge its bets and benefit from economic opportunities with China, without compromising its independent position. The partnership with the EU could fit well into the Singaporean overall strategy, especially when the US commitment to rules-based order has been less than enthusiastic under the Trump administration.

Conclusion

As connectivity becomes a major feature of the new geopolitical chessboard, the EU would be well advised to build on the existing partnership with Japan and seek other like-minded countries in Asia. The priority must be working on some concrete projects with Japan to demonstrate the importance of this partnership.

But then countries like South Korea, Australia and Singapore should come into the mix. All support a rules-based approach to multilateral trade and investment. The recent free trade and investment agreements with Singapore would suggest that the SE Asian island state should be considered a priority partner for the EU in expanding its connectivity strategy with ASEAN. ■

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