



# **CONNECTING EUROPE AND ASIA**

## **BUILDING BLOCKS FOR AN EU STRATEGY**

Joint communication to the European Parliament,  
the Council, the European Economic and Social  
Committee, the Committee of the regions and  
the European Investment Bank

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## 1. Introduction

The relationship between the European Union and Asia is of global significance and the ties are likely to increase in the coming years. Asia, with roughly 60% of the world population accounts for 35% of the EU's exports (€618bn) and 45% of the EU's imports (€774bn).<sup>1</sup> For both Europe and Asia, growing global interdependence is an opportunity for increased cooperation, for peaceful political cooperation, fair and stronger economic relations, comprehensive societal dialogue and collaboration on international and regional security. Europe and Asia, together, can be the engines of a more cooperative approach to world politics, global stability and regional economic prosperity.

To make a further step change in that cooperation and to unlock opportunities within the global economy, the EU and Asia should ensure an efficient and sustainable connectivity. Connectivity<sup>2</sup> contributes to economic growth and jobs, global competitiveness and trade, and people, goods and services to move across and between Europe and Asia.

Some estimate that Asia will require over 1.3 trillion EUR a year of infrastructure investment in the coming decades to maintain today's growth rates and to adapt to climate change.<sup>3</sup> By comparison, in the EU, the investment in the Trans-European network for transport is estimated to require 1.5 trillion EUR in the period 2021-2030. It is however not purely an investment challenge. Asia encompasses different regions, which are home to very diverse countries in terms of economic models and level of development. Consistent and aligned rules, standards or practices are needed to promote market access and the movement of goods, services, capital and people across borders. High environmental and social standards, adequate planning and full life-cycle cost-benefit analysis are necessary to ensure the sustainability of connectivity investments over the longer term. Fiscal and financial sustainability of infrastructure projects need to be ensured to avoid the risk of debt distress.

This is why the Commission proposes the building blocks towards an **EU Strategy on Connecting Europe and Asia** with concrete policy proposals and initiatives to improve connections between Europe and Asia, including through interoperable transport, energy and digital networks.<sup>4</sup> This Communication is also part of the EU contribution for the 12<sup>th</sup> Asia-Europe Meeting (ASEM) in October 2018, which will offer the opportunity to promote connectivity and advance cooperation with Asian partners.

This Communication should be read together with the Commission's proposal for the next Multiannual Financial Framework<sup>5</sup> that sets clear priorities, which have been further clarified in recent Communications of the Commission<sup>6</sup> whilst providing for means to promote and support private investments globally.

## 2. The European way: sustainable, comprehensive and rules-based connectivity

The EU has been a driver for internal connectivity over the last decades. Through the creation of the **internal market**, the EU enabled the free flow of people, goods, services and capital. EU-wide rules – such as EU state aid control and procurement rules – ensure fair and transparent competition, whilst Union policies also ensure environmental protection, safety, security, as well as social and individual rights.<sup>7</sup> In the same vein, the EU also promotes a circular economy, low greenhouse gas emissions, and a climate resilient future in order to attain the Sustainable Development Goals (SDGs) and the targets set out in the Paris Climate Agreement. These policies have encouraged investment in cross-border

<sup>1</sup> See 2016 Figures, available at [http://trade.ec.europa.eu/doclib/docs/2011/january/tradoc\\_147207.pdf](http://trade.ec.europa.eu/doclib/docs/2011/january/tradoc_147207.pdf)

<sup>2</sup> Connectivity is defined in the Chairs' Statement of the 13th ASEM Foreign ministers meeting in Na Pyi Taw, Myanmar, on 20-21 November.

<sup>3</sup> Asia Development Bank, Meeting Asia's Infrastructure Needs, 2017

<sup>4</sup> The importance of connectivity for prosperity is recognised in the European Commission's ten priorities, the global strategy on EU foreign and security policy and the European Consensus on Development.

<sup>5</sup> Communication 'A Modern Budget for a Union that Protects, Empowers and Defends — The Multiannual Financial Framework for 2021-2027', COM(2018) 321.

<sup>6</sup> Communication 'Africa-Europe Sustainable Investments and Jobs Alliances', COM(2018) 643 and Communication 'Towards a more efficient financial architecture for investments outside the European Union', COM(2018) 644.

<sup>7</sup> The obligation of conducting environmental impact assessments for infrastructure projects was first introduced in EU legislation in 1985. The precautionary principle, the prevention principle, the principle that environmental damage should be rectified at source and the polluter pays principle should apply. See the Treaty on the Functioning of the European Union, Art. 174(2).

connectivity, based on a clear Trans-European Network (TEN) with well-identified priorities and standards. The citizens, as users of connectivity and businesses benefit from the ability to rely on efficient pan-European infrastructure, free and fair competition, and common standards. The EU internal market has led to increased productivity and competitiveness and can be a source of inspiration globally.

EU's connectivity policies aim at promoting efficiency in the EU single market and enhancing connectivity on a global scale, with emphasis on people's benefits and rights. These objectives are supported by policies on: sustainable development, decarbonisation, digitalisation, investment, innovation and global leadership.

The EU experience enables it to promote an approach to connectivity, which is sustainable, comprehensive and rules-based:

- **Sustainable connectivity.** To drive productivity and create growth and jobs, connectivity investments need to ensure market efficiency and be fiscally viable. To respond to the challenges of climate change and environmental degradation, it has to promote decarbonisation of the economy and respect high standards, based on environmental impact assessments. To further social progress, it needs to adhere to high standards of transparency and good governance and give a voice to the people affected by the projects, based on appropriate public consultations. Connectivity policies should reduce negative externalities, such as environmental impact, congestion, noise, pollution and accidents. In short, connectivity has to be economically, fiscally, environmentally and socially sustainable in the long term.
- **Comprehensive connectivity.** Connectivity is about networks, and the flow of people, goods, services and capital that pass through them. This means transport links, by air, land or sea. It means digital networks, from mobile to fixed, from the internet backbone to the last mile, from cables to satellites. It also means energy networks and flows, from gas, including liquified natural gas, to electricity grids, from renewables to energy efficiency. Synergies between the three sectors, sometimes leading to innovative and new forms of connectivity, should be optimised. Connectivity has a crucial human dimension and people's interests and rights should be at the core of any policy.
- **International rules-based connectivity.** Rules and regulations are required for people, goods, services and capital to move efficiently, fairly and smoothly. Internationally agreed practices, rules, conventions and technical standards, supported by international organisations and institutions, enable interoperability of networks and trade across borders. In its internal market, the EU guarantees non-discrimination and a level playing field for enterprises and promotes an open and transparent investment environment while protecting its critical assets.<sup>8</sup> The EU should continue to promote open and transparent procurement processes where companies should enjoy a level playing field.

On that basis, the EU will engage with its neighbours and Asian partners along three strands:

- First, by contributing to efficient connections and networks between Europe and Asia through priority transport corridors, digital links and energy cooperation at the service of people and respective economies.
- Second, by establishing partnerships for connectivity based on commonly agreed rules and standards enabling a better governance of flows of goods, people, capital and services.
- Third, by contributing to address the sizeable investment gaps through improved mobilisation of resources, reinforced leveraging of EU's financial resources and strengthened international partnerships.

### 3. Building efficient connections between Europe and Asia

To further strengthen the efficiency of existing and future connections, the Union, together with its partners, should address the transport, energy and digital links between Europe and Asia, while taking into consideration the rapid technological change, which has a strong impact on connectivity. While addressing the physical connections between Europe and Asia, the EU and its partners should also encourage connectivity and mobility amongst students, academics, and researchers.

<sup>8</sup> Proposal for a Regulation of the European Parliament and of the Council establishing a framework for screening of foreign direct investments into the European Union (COM(2017) 487).

### 3.1. Transport

Both the Asian partners and the Union have an interest in developing efficient, economically viable and environmentally sustainable trade routes and corridors between Europe and Asia. Today, measured in value, 70% of the trade goes by sea, over 25% is carried by air, while rail remains relatively marginal. The potential for growth in all sectors is substantial.

The EU should enhance the transport connectivity together with its neighbours and Asian partners. The EU should work towards **connecting the well-developed Trans-European Network for Transport (TEN-T) framework with networks in Asia**. TEN-T comprises clear priorities and standards to promote cross-border and interoperable multi-modal transport, i.e. a combination of rail, sea and inland waterways. To achieve this objective, the EU could offer technical assistance as appropriate to help its partners plan their transport systems and ensure their interconnection and contribute to financing of infrastructure as appropriate (see part 4). New methods to assess the levels of connectivity, for instance connectivity indices, will help identify gaps and opportunities. The EU should also contribute to make transport connectivity with Asia more secure.

#### Connectivity and security

The world depends increasingly on sophisticated data networks and transfers, energy connections, perfectly timed value chains and the mobility of people. Managing these flows means finding the right balance between facilitating them and ensuring their safety and security. In an era of hybrid threats and terrorism, 'flow security' matters. Access to trade routes remains dependent on an adequate political and security environment and is subject to addressing challenges, such as transnational organised crime and any kind of illicit smuggling and trafficking, cybersecurity and attacks on transport and energy security. These challenges cannot be addressed solely through the internal or external policies of countries or entities. The EU should engage with partner countries to make transport connectivity with Asia safer and more secure, in particular in area of cybersecurity.

#### ✓ **Air transport**

EU **aviation agreements** with third countries create new economic prospects by opening up markets and promoting investment opportunities. To enable the growth of air transport to the benefit of citizens and businesses from EU and from partner countries, the EU is currently negotiating aviation agreements with several countries in the EU neighbourhood and Asia.<sup>9</sup> In doing so, the EU also addresses the environmental and climate impact of aviation, in particular the issue of aviation emissions. The EU will continue to support within Europe, Asia and beyond, the necessary **long-term decarbonisation** of air-transport, including through promoting the effective implementation of international agreements<sup>10</sup> and through targeted activities to build capacity in partner countries.

#### ✓ **Sea transport**

The EU supports clean and sustainable shipping by developing EU-wide policy measures and engaging in the environmental efforts including those of the International Maritime Organisation (IMO). As part of its strategy to decarbonise transport, the Commission will further promote the use of **alternative fuels** in ports in Europe and Asia. By continuing to engage with third countries in Asia through pertinent **maritime transport agreements** it will help to regulate and facilitate maritime traffic. To speed up customs formalities, it should promote its initiatives to digitalise and simplify administrative formalities at ports in Asia.<sup>11</sup> The EU should also encourage the wider adoption of the Rotterdam rules, which would make the use of electronic documents in shipping easier.<sup>12</sup> To strengthen maritime security, the EU should propose additional measures and continue to support international efforts, including via the IMO. The EU should continue to develop the bridging role of the Black Sea basin.

<sup>9</sup> Negotiations have been finalised with Armenia and are ongoing with ASEAN, Azerbaijan, Turkey and Qatar. The Commission has initialled a Common Aviation Area agreement with Ukraine, a bilateral aviation safety agreement with China and is negotiating one with Japan.

<sup>10</sup> ICAO agreements.

<sup>11</sup> Communication 'Strategic goals and recommendations for the EU's maritime transport policy until 2018', COM(2009) 8).

<sup>12</sup> The UN Convention on Contracts for the International Carriage of Goods Wholly or Partly by Sea (2008).

### ✓ **Land transport**

In the **rail transport** sector, the EU should, together with its partners, work towards increasing the competitiveness of rail connections by reducing the transit times and improving the load factors. The EU has extended the Trans-European Network for Transport (TEN-T) to Western Balkans countries, and recently agreed on the extension of the TEN-T with six Eastern partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine). Both the **North-South** rail connections<sup>13</sup> and the **East-West** rail connections<sup>14</sup> could play an important role in the future. The EU-China rail connection in particular has been experiencing strong growth. The challenges for the long-term economic viability and competitive neutrality of this rail connection would need to be addressed. The EU is supporting the Unified Rail Law initiative of the United Nations Economic Commission for Europe (UNECE) that is seeking to unify the legal regime for the carriage of goods by rail across the Eurasian continent. The EU will work with relevant rail transport organisations to extend application of the EU's technical specification and safety management frameworks.<sup>15</sup> For Euro-Asian connectivity, **road transport** usually makes sense over medium distances (such as to Central Asia) and as a secondary transport network in combination with other modes of transport. Moreover, ensuring adequate social conditions to workers in the sector and fair competition between road transport undertakings are key. In its engagement with Asian countries, the EU should focus on promoting **road safety** by sharing best practices and the most suitable solutions to reduce road fatalities and injuries. The EU will also help promote the exchange of **customs** information, develop cooperation on transit both bilaterally and through the World Customs Organisation (WCO).

### 3.2. Digital connectivity

**High capacity network links** are critical to support the digital economy. Backbone network links with Asian and other third countries will contribute to a fully meshed network, providing the required bandwidth and other quality criteria for this increasingly critical infrastructure. Universal and affordable access to internet is a proven **enabler of socio-economic development**.

In its relations with Asian countries, the EU should promote a peaceful, secure and open ICT environment, while addressing cybersecurity threats and protecting human rights and freedoms online, including personal data protection. A coherent regulatory approach is needed to support private and public investment in the 'digital' infrastructure<sup>16</sup> as well as policies and incentives to bridge the digital divide, particularly in remote regions or land-locked countries. To this end, the Union will pursue, as appropriate, its **Digital4Development strategy**<sup>17</sup> in Asia promoting digital technologies and services to foster socio-economic development.

### 3.3. Energy connectivity

The liberalisation of the EU energy market coupled with renewables and energy efficiency 2020 targets and the energy union strategy have spurred a market-driven transformation towards clean energy. They have resulted in a more decarbonised and interconnected electricity network, which is crucial for competition and a key enabler for the integration of variable renewable energy. Based on its experience, the EU should promote regional **energy connectivity platforms** that focus on market principles, encourage modernisation of the energy system and the adoption of clean (decentralised) solutions, energy efficiency and **support energy connectivity both between and with partners in Asia**.

<sup>13</sup> The North-South rail connections link the Mediterranean, the Black Sea and the Gulf to the North Sea, the Baltic and the Arctic.

<sup>14</sup> The East-West rail connections link the EU to China and Central Asia.

<sup>15</sup> The Intergovernmental Organisation for International Carriage by Rail (OTIF) and the Organisation for Cooperation of Railways.

<sup>16</sup> See Communication 'A Modern Budget for a Union that Protects, Empowers and Defends', COM(2018)321, where the Commission has proposed to promote digital connectivity with Asian and other countries through the Connecting Europe Facility for the period of 2021-27.

<sup>17</sup> See Staff Working Document 'Digital4Development: mainstreaming digital technologies and services into EU Development Policy', SWD( 2017) 157.

### 3.4. People to people connectivity

Connectivity and mobility amongst students, academics and researchers **is key to mutual understanding and economic growth**. Since 2014, different programmes have financed the mobility of over 18000 students, researchers, and staff. The EU should further strengthen student and academic exchanges with Asian countries through the Erasmus programme, the Marie Skłodowska Curie actions, mutual recognition of diplomas, and regional exchange of researchers and innovators. The EU should encourage city-to-city cooperation, including interaction between the EU Capitals of Culture and their counterparts in Asia, and increase in the mobility of artists and cooperation in sports.

#### Key actions for Chapter 3

The Commission will:

- Develop a methodology to assess the levels of sustainable connectivity in Europe and Asia and its economic impact within the EU and its regions.
- Promote the exchange of data for customs and digital transport corridors and assess risks.
- Pursue Air Transport Agreement negotiations with the Association of Southeast Asian Nations (ASEAN), Azerbaijan, Turkey and Qatar, and sign Bilateral Air Safety Agreements with People's Republic of China (China) and Japan.
- Promote agreements on the decarbonisation of transport in international fora, in particular in aviation and maritime sectors.
- Promote the digitalisation and administrative simplification of maritime transport in Asia and the Black Sea countries as well as the adoption of the Rotterdam rules.
- Explore the possibility of extending the mandate of the EU TEN-T corridor coordinator(s) to the Enlargement and Neighbourhood region within the envisaged review of the TEN-T regulation which needs to be completed by 2023.
- Work on standards for ethical use of forward looking technologies such as Artificial Intelligence and promote full compliance with responsible state behaviour online.
- Further promote Erasmus and the Marie Skłodowska Curie actions in Asia and related reciprocity arrangements to increase opportunities for exchange and mobility.

## 4. Building international partnerships for sustainable connectivity

There is a **diverse range of actors** and dynamics setting the parameters for cooperation in sustainable connectivity.<sup>18</sup> To pursue connectivity effectively the EU should strengthen the existing and further build new bilateral, regional and international partnerships that are sustainable, open, inclusive and rules-based.

<sup>18</sup> See Joint Staff Working Document SWD (2017) 436, 'Euro-Asian Connectivity Mapping Exercise — Main Findings' on the various connectivity initiatives pursued by EU partners.



#### 4.1. Bilateral cooperation

The EU is a major **development and investment cooperation** partner in Asia. Development dialogues also address investment and sustainable connectivity and should include potential cooperation with third countries. In this context, the EU and its Asian partners can work better together to improve the regulatory environment, public financial management and the mobilisation of domestic resources. The EU will also offer its support, inter alia through technical assistance, to strengthen the planning capacity, to develop and implement sustainable connectivity projects, policies and regulatory regimes, based on international standards and best practices.

Bilateral cooperation with individual countries should be adapted to their specific situation. For instance, with China, the EU should strengthen the existing cooperation on the respective infrastructure and development cooperation initiatives, promote the implementation of the principles of market access and a level playing field, as well as rely on international standards within initiatives on connectivity. As to Japan, the EU should coordinate closely efforts to promote international standards and regional cooperation in Asia, notably by reinvigorating the EU-Japan transport dialogue. In South-East Asia, the EU should continue the transport dialogue with Singapore started in 2011.

At the same time, the EU should expand the dialogue on sustainable connectivity with other partners including Afghanistan, India, Indonesia, Iran, Pakistan, Russia, Republic of Korea, Turkey, and countries of Central Asia, as well as Australia and the United States.

#### Sustainable connectivity and EU enlargement and neighbourhood policies

Connectivity is an important aspect of EU enlargement and neighbourhood policies. As countries covered by these policies approximate or harmonise their approaches with those of the EU, sustainable connectivity is gradually being introduced in their legislation.

In the context of the EU new Western Balkans policy,<sup>19</sup> the Commission has recently launched flagship initiatives for increased connectivity and a Digital Agenda for the region. Also, the Sofia Declaration of the May 2018 EU-Western Balkans Summit pledges to substantially increase connectivity in all its dimensions: transport, energy, digital, and human.<sup>20</sup> An action plan for investment in transport in the Eastern Partnership countries is currently being prepared in addition to the recent engagement to step up cooperation in the area of digital economy.

In this context, the Commission will ensure that sustainable connectivity is more widely taken into account in EU enlargement and neighbourhood policies and promote further technical and regulatory convergence in this field. It will also provide further assistance with the implementation of public procurement legislation and promote transparency and best practices.

#### 4.2. Regional cooperation

The EU has experience in establishing regional cooperation structures, such as those around the Baltic Sea region. Working with its partner countries, international organisations and financial institutions, the EU should consider developing **regional connectivity cooperation approaches** for Asia, providing an analysis of connectivity-related activities in specific regions, connectivity gaps and opportunities for cooperation to support the EU-Asia connectivity.

<sup>19</sup> Communication 'A credible enlargement perspective for and enhanced EU engagement with the Western Balkans', COM(2018) 65.

<sup>20</sup> Sofia Declaration (May 2018). Available at: [http://www.consilium.europa.eu/media/34776/sofia-declaration\\_en.pdf](http://www.consilium.europa.eu/media/34776/sofia-declaration_en.pdf).

Asia counts several international organisations and mechanisms with mandates touching upon connectivity.<sup>21</sup> The nature of EU involvement with these organisations depends on their activities and scope of action. ASEM is an important platform for collaborating with key Asian partners. The EU should continue strengthening its cooperation with ASEAN, a central player in connectivity in Southeast Asia, in support of the Master Plan on ASEAN Connectivity 2025 and the convergence of standards within it, including via the ongoing transport dialogue.<sup>22</sup> Finally, the EU should also promote regional cooperation on sustainable connectivity as a key aspect of its Central Asia strategy.

### 4.3. International cooperation

International cooperation has a central role in determining the legal frameworks and concrete forms that connectivity takes. It plays an important role in strengthening the sustainability of these frameworks, as demonstrated by the recent EU ocean governance initiative.

#### Ocean governance

The EU is committed to the freedom of navigation and a sustainable governance of oceans and seas. In November 2016, a Joint Communication<sup>23</sup> proposed 50 actions for safe, secure, clean and sustainably managed oceans around the world, seeking ‘ocean partnerships’ with key players. Together with the World Bank, the EU devised a ‘Blue Economy Development Framework’ which will help coastal states, regions and communities make the transition to blue economies by setting up a financial blending mechanism for public-private partnership investments over 30 years.

International organisations<sup>24</sup> develop **international agreements and standards**, the enforcement and recognition of which is required to fight against climate change, environmental degradation, to promote market access, free and fair trade and to ensure the **interoperability of networks**.<sup>25</sup> Commonly adopted international standards provide for technical harmonisation enabling for interoperability of the different networks. International and European Standardisation Organisations<sup>26</sup> are essential partners of the EU, ensuring technical harmonisation in Europe and Asia, based on a consensus-based elaboration of industry-led standards. The Commission will work with these organisations and the relevant industries to review the need for connectivity-related standards. The Commission will expand the provision of technical assistance and coordinate more closely with relevant international organisations and foreign partners to secure the commitment of key third countries for those standards and their wider adoption. Overall, the EU should strengthen its engagement with international organisations and strengthen its external representation, participation and coordination.

<sup>21</sup> Including ASEM, ASEAN, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, Central Asian Regional Economic Cooperation, the South Asian Association of Regional Cooperation, South Asia Subregional Economic Cooperation and the Shanghai Cooperation Organisation.

<sup>22</sup> When relevant, the EU could engage at technical level with the Eurasian Economic Union and its Member States, with the aim of achieving closer convergence of their technical regulations and standards with the international ones.

<sup>23</sup> Joint Communication ‘International ocean governance’, JOIN(2016) 49.

<sup>24</sup> Including the Organisation for Economic Cooperation and Development, UNECE and its Inland Transport Committee; in rail transport, OTIF and OSJD; in energy, the International Energy Agency and International Renewable Energy Agency. Other key organisations with a global mandate would include the IMO, ICAO, ITU and the ILO for social rights.

<sup>25</sup> Including, but not limited to, the UNECE Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters and the UNECE Espoo Convention on Environmental Impact Assessments and its Protocol on Strategic Environmental Assessments.

<sup>26</sup> The International Electrotechnical Commission, the International Organisation for Standardisation and International Telecommunication Union; the European Committee for Standardisation, the European Committee for Electrotechnical Standardisation and the European Telecommunications Standards Institute.

### Key actions for Chapter 4

The Commission will:

- Step up cooperation with relevant third countries, including in EU-China Connectivity Platform, to promote the digital economy, efficient transport connectivity and smart, sustainable, safe and secure mobility, based on the extension of the TEN-T network, and promote a level playing field in investment.
- Support sustainable connectivity in policy and development dialogues with third countries.
- Deepen cooperation with relevant regional organisations in Asia and pilot regional connectivity cooperation approaches for Asia.
- Cooperate with European and International Standardisation Organisations and their national members in view of efficient and joint development of the necessary technical standards, including through targeted technical assistance and technical cooperation.
- Work with United Nations Economic Commission for Europe (UNECE) to unify the legal regime for the carriage of goods by rail across the Eurasian continent, and with the Intergovernmental Organisation for International Carriage by Rail (OTIF) and the Organisation for Cooperation of Railways (OSJD) to extend the application of the EU's technical specifications and safety management frameworks.

## 5. More and better investment in sustainable connectivity

Globally, investment needs for connectivity are not being met. A World Bank study suggests that the poorest countries have, proportionally speaking, the highest needs (12.5 per cent of GDP on average) and the largest gaps (7.5 per cent of GDP) in infrastructure spending. A comprehensive approach to finance is needed to address this sizeable investment gap. This starts with better domestic resource mobilisation, pricing models for the use of infrastructure, and regulatory frameworks. This is true for Asia as well, where regional disparities are wide.<sup>27</sup>

### 5.1. New and innovative EU financing for connectivity

This Communication does not aim at establishing an investment plan, although the EU's existing and future financial instruments could offer some perspectives for supporting private investment in connectivity-related projects.

The EU already has a solid **track record** in financially supporting connectivity.<sup>28</sup> Geographical investment facilities, such as the Neighbourhood Investment Facility (NIF), the Investment Facility for Central Asia (IFCA) and the Asia Investment Facility (AIF), have been providing financing and technical assistance for infrastructure and connectivity. The Asia Investment and Central Asia Investment facilities alone, have leveraged more than EUR 4.2 billion of investments between 2010 and mid-2018 through blending of grants and loans.<sup>29</sup> The Investment Plan for Europe also presents concrete opportunities for co-investments in Europe.

<sup>27</sup> Inderst, George (2018), 'Infrastructure Investment, Private Finance, and Institutional Investors: Asia from a Global Perspective', Asian Development Bank Institute.

<sup>28</sup> Between 2014 and mid-2018, the Western Balkans Investment Facility has leveraged around EUR 2.4 billion of investments in connectivity, whereas the Neighbourhood Investment Facility has leveraged around EUR 2.9 billion of investments in connectivity in Eastern partner countries.

<sup>29</sup> For example, the EIB contributes with € 70 million to Central Asia South Asia Electricity Transmission and Trade Project (CASA-1000), which enables electricity transmission between Kyrgyzstan, Tajikistan with Afghanistan and Pakistan.

For the next multiannual financial framework (2021-2027), the Commission has proposed several innovative measures that could spur public and private investment in connectivity. The Commission proposal notably includes an investment framework for external action, building on the current European Fund for Sustainable Development<sup>30</sup> (which is part of the EU's External Investment Plan and applies to Africa and the Neighbourhood), to provide financing to catalyse additional public and private capital. While its primary focus will be on Africa and the EU's Neighbourhood, part of its resources will also be devoted to other geographical areas.

Moreover, the Commission supports all efforts to render the institutional and operational framework for the EU's external investments even more effective and operational, to respond to our main investment challenges. A recent Communication of the Commission<sup>31</sup> highlights the need for international cooperation to be able to rely on a combination of funding sources, especially by crowding in more private investment, stressing the need to make the most of existing instruments, starting with the European Fund for Sustainable Development. The Communication also calls on the main financial and development institutions active in development financing to strengthen their cooperation.

### **Innovative financing for international cooperation in the next multiannual financial framework (2021-2027)**

In May 2018, the Commission put forward its proposal<sup>32</sup> for the next EU multiannual financial framework, which includes measures to promote investment, including in sustainable connectivity. The Commission is proposing a new external investment architecture, with expanded global coverage, including Asia.<sup>33</sup> Like its predecessor, it will mobilise public and private financing through a reinforced EU guarantee, which may be complemented by grants and loans. If agreed, the new architecture will promote further investment, including in sustainable connectivity. A proposed expansion of the EU's research budget will help the transition towards more sustainable forms of connectivity.

The EU should strengthen cooperation with the **EU Member States' public and private finance institutions, including sovereign funds** and strive towards a closer concertation of activities with them. To promote sustainable finance, the EU and European lending institutions should also improve dialogue with the public and private finance institutions of third countries, in line with the Action Plan Financing Sustainable Growth.<sup>34</sup> The Action Plan is a blueprint for discussions in international fora, aiming at a more sustainable management of the financial system. The Commission encourages cooperation on sustainable finance and the exchange of best practices between European banks, including public banks, and other non-EU country banks. It will also support corporate social responsibility initiatives to implement international standards for the financing of connectivity-related projects. The EU will support the processes in the G7, G20, and OECD, to align lending practices of public finance institutions with the principles of sustainable connectivity.

<sup>30</sup> Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund.

<sup>31</sup> Communication from the Commission to the European Parliament, the European Council, the Council and the European Investment Bank. Towards a more efficient financial architecture for investment outside the European Union, COM (2018) 644.

<sup>32</sup> Communication 'A Modern Budget for a Union that Protects, Empowers and Defends — The Multiannual Financial Framework for 2021-2027', COM(2018) 321. The Commission Communication 'Towards a more efficient financial architecture for investments outside the European Union', COM(2018) 644 sets out the proposed external investment architecture.

<sup>33</sup> See Communication referred above, in footnote 30.

<sup>34</sup> Communication on 'Action Plan: Financing Sustainable Growth' COM(2018) 97.

## 5.2. International partnerships in finance

**International Financial Institutions (IFIs) and Multilateral Development Banks (MDBs)** are a central component in the global architecture for financing connectivity. The European Investment Bank (EIB), as the EU Bank and investment partner, and the European Bank for Reconstruction and Development (EBRD), have both been expanding their lending, which provides new avenues for cooperation. The IMF and the World Bank are important partners for cooperation in debt sustainability and connectivity. The EU should also deepen its cooperation with the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB), while ensuring that EU priorities are fully respected in these relationships. The support of MDBs is essential in implementing the G20 'Roadmap to Infrastructure as an Asset Class', and a wider adoption of infrastructure management platforms would help improve the implementation of projects.<sup>35</sup> Enhanced coordination of the EU membership within the MDBs should also be pursued.

## 5.3. A level playing field for business

The key prerequisites for businesses to develop and promote EU-Asia connectivity are adequate level playing field in market access and foreign direct investments; fairness and transparency in public procurement; non-discriminatory market practices; and balanced the protection of intellectual property rights.<sup>36</sup> Strong macroeconomic and fiscal stability frameworks, sound sector policies and reforms, comprehensive annual and medium-term fiscal and budgetary frameworks and sound public financial management systems are therefore essential. The EU will continue to support initiatives ensuring level playing field for business. A wider accession to the **Agreement on Government Procurement** (GPA) of the WTO would be a concrete step forward. The swift adoption of the Commission proposal on the International Procurement Instrument<sup>37</sup> would encourage partners to join and to be more forthcoming on market access commitments. The EU should continue to encourage partners to use of the quality criteria and lifecycle cost in public procurement procedures. Achieving a level playing field will also require improving the transparency of **export credit systems**. Discriminatory practices should be eliminated. The International Working Group on Export Credits should establish disciplines to ensure a level playing field between exporters of the different countries.

The EU intends to step up its efforts in **economic diplomacy**<sup>38</sup> in Asia. It intends to support platforms for matching European and Asian businesses, with a focus on SMEs and envisages creating a Business Advisory Group for Euro-Asian connectivity. The EU should continue to promote its European Investment Project Portal (in the future, InvestEU Portal), which enables visibility on investment opportunities in EU to all interested investors.

<sup>35</sup> For example, for the management platform SOURCE, see the website of the Sustainable Infrastructure Foundation, <https://public.sif-source.org/>.

<sup>36</sup> Report from the Commission to the European Parliament and the Council on Trade and Investment Barriers, 1 January 2016 to 31 December 2016.

<sup>37</sup> Commission proposal for a Regulation on the access of third-country goods and services to the Union's internal market in public procurement and procedures supporting negotiations on access of Union goods and services to the public procurement markets of third countries, COM (2016) 34. The proposal is currently under consideration by the European Parliament and the Council.

<sup>38</sup> The Commission's Reflection paper on harnessing globalisation, COM(2017) 240.

### Key actions for Chapter 5

The Commission (and where appropriate the High Representative) will:

- Facilitate investment for Euro-Asian connectivity through the investment facilities and guarantees, involving European public banks (EIB, EBRD and Member States' national banks and institutions), and IFIs, in line with international standards and level-playing field.
- Step up the EU's cooperation on investment with the Asian Development Bank and the Asian Infrastructure Investment Bank.
- Establish a Business Advisory Group for Euro-Asian Connectivity.
- Press for enhanced transparency of public procurement in Euro-Asian infrastructure, including through wider accession to the WTO Government Procurement Agreement and the adoption of GPA standards and support to the establishment of dedicated public procurement websites.

## 6. Conclusions

This Joint Communication provides the basis for an EU strategy on connecting Europe and Asia. The **principles of sustainable, comprehensive and international rules-based connectivity inform this strategy**. Through this approach, the EU will enhance regulatory quality and level playing field of connectivity, drawing inspiration from its internal market. It will contribute to the development of transport, energy and digital networks, on the basis of its experience with cross-border connectivity. It will seek to strengthen its partnerships with third countries, regions and international organisations. It will increase cooperation in education, research, innovation, culture, sport and tourism, helping to promote diversity and the free flow of ideas. To support these different policies and actions, the EU should use all levers and tools in its financial framework to mobilise public and private investment in sustainable connectivity. A joint effort of the EU and its Member States for better communicating, branding and marketing connectivity projects and programmes with Asian partners will also play a crucial part in the success of the strategy.

The Commission therefore invites the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions, the European Investment Bank and relevant stakeholder to discuss and support the actions presented in this Joint Communication.

