

Asia-Europe Connectivity

CURRENT STATUS, CONSTRAINTS, AND WAY FORWARD

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Background

Connectivity, as the world sees it today, is not merely about roads, bridges, or other transport routes; it has a larger canvas that includes infrastructure, institutions, and people-to-people contact. It is a multidimensional concept that has important implications for trade, investment, and movement of people.

The European Union established a free single market by providing a regulatory framework that seeks to guarantee the free movement of goods, capital, services, and people among its member states. To support strategic investments of European significance in infrastructure including broadband and energy networks as well as transport infrastructure, the European Union launched the European Commission's Investment Plan in 2014 (Asselborn, 2016). On the other hand, the ASEAN members launched their 'The Master Plan on ASEAN Connectivity' in 2010 to enhance the region's physical infrastructure, institutions, and people-to-people relations.

The importance of trans-regional connectivity was realised when the Eurasian continent became one of the pioneers of such a connectivity. It was emphasised that the two neighbouring continents of Asia and Europe have high economic complementarities but also face tremendous challenges.

Recently, China has taken a step ahead in this direction through 'One Belt, One Road' (also known as Belt and Road Initiative). This initiative is backed by the US\$40 billion Silk Road Fund and the US\$100 billion Asian Infrastructure Investment Bank (AIIB). It aims to link China and Europe through Central and Western Asia. It will also connect China with South and Southeast Asian countries. This mega project includes many small projects of infrastructural connectivity between Asia and Europe. The China-Europe freight trains are such examples. Similar other projects include the International North-South Transport Corridor (INSTC) which was initiated by Russia, India, and Iran. It is expected to bring great opportunities for the members especially as it opens transport links for India and South Asia to the landlocked region of Central Asia, further connecting it to the Europe.

What follows from the above is that the connectivity between Asia and Europe is being given the highest importance by the economies in the two regions. The significance of Asia–Europe connectivity was stressed by the ASEM (Asia–Europe Meeting) Summit in Milan in October 2014. The Leaders noted the contribution that increased ties could make to economic prosperity and sustainable development and to promoting free movement of people, trade, investment, energy, information, knowledge, and ideas and greater institutional linkages.

The ASEM members further aim to intensify these discussions as infrastructural connectivity between Asia and Europe has become all the more important in the past few years. Many projects discussed in the next section were initiated by the two regions to cover the connectivity gap. However, these confront enormous challenges which need to be addressed such as those relating to ‘financing infrastructure’. Against this backdrop, the next sections (i) give a snapshot of some of the existing and planned connectivity projects in the region, (ii) discuss existing financing mechanisms, (iii) enlist challenges, and (iv) present broad policy recommendations.

Select Projects Aimed at Strengthening Asia–Europe Connectivity

Belt and Road Initiative

The Belt and Road Initiative, proposed by China, aims to promote the connectivity of Asian, European, and African continents and their adjacent seas. It also aims to establish and strengthen partnerships among the countries along the ‘Belt and Road’; set up all-dimensional, multi-tiered connectivity networks; and realise diversified, independent, balanced, and sustainable development in these countries (NDRC et al., 2015). According to the framework it covers the area of the ancient Silk Road but it is open to all countries.

The initiative has two components: (i) the land-based ‘Silk Road Economic Belt’ and (ii) the Maritime Silk Road. Per reports, the initiative will focus on jointly building a new Eurasian land bridge and developing China–Mongolia–Russia, China–Central Asia–West Asia, and China–Indochina Peninsula economic corridors. For this, advantage will be taken of international transport routes, relying on core cities along the Belt and Road, and using key economic industrial parks as cooperation platforms.

The Belt and Road Initiative is backed by strong financial resources commitments from China. China launched a US\$40 billion Silk Road Fund, which will directly support the initiative. Additionally, the Asian Infrastructure Investment Bank (AIIB) will provide the financial resources for the initiative. The AIIB has been primarily set up to address infrastructure funding gap in Asia, which the Asian Development Bank (ADB) has pegged at US\$8 trillion between 2010 and 2020.

Eurasia Tunnel Project

The Eurasian Tunnel built underneath the sea in Istanbul is the highway tunnel project joining Asia and Europe. The Eurasian Tunnel is on the Kazlıçeşme-Göztepe route and is 14.6 km long. It will connect the Asian and European lands through a highway tunnel going under the seabed of Istanbul Bosphorus Strait by 2016 (*Daily Sabah Istanbul*, 2015). It is expected to considerably reduce travel time between the Asian and the European sides, from 100 minutes to 15 minutes. The project, also known as the Istanbul Strait, once built will reduce the congestion and relieve traffic density on the huge suspension bridges which cross the Bosphorus Strait. The passage fare will be \$4 for each vehicle, and cars will take 15 minutes to pass through the tunnel. The tunnel will feature both a highway for cars and a railway. One highway lane will be at the top of the tunnel, the middle layer will be occupied by the railway line, and the other lane of the highway will be at the bottom. The project was contracted in 2009 through a Turkish-Korean joint venture. It was named Eurasian Tunnel Operation Construction and Investment-ATAS in 2011. According to the project, ATAS will be responsible for construction, operation, and maintenance for 25 years.

International North-South Transport Corridor (INSTC)

The INSTC was initiated by Russia, India, and Iran in September 2000 to establish transportation networks among the member states and to enhance connectivity with the landlocked region of Central Asia. The North-South Transport Corridor is an ancient route that connected South Asia with North Europe for centuries. This route was used by the European, Indian, Russian, and many foreign traders.

The INSTC is a multimodal transportation route connecting the Indian Ocean and Persian Gulf to the Caspian Sea via Iran, and onward to northern Europe via St. Petersburg in Russia. The INSTC envisages movement of goods from Mumbai (India) to Bandar Abbas (Iran) by sea, from Bandar Abbas to Bandar-e-Anzali (an Iranian port on the Caspian Sea) by road, from Bandar-e-Anzali to Astrakhan (a Caspian port in the Russian Federation) by ship across the Caspian Sea, and thereafter from Astrakhan to other regions of the Russian Federation and further into Europe by Russian railways (Roy, 2015).

The INSTC route will open a lot of opportunities for India as it will enhance India's trade and investment linkages with Central Asia. Due to the facilitating role of this corridor in strengthening India's ties with Eurasia and Central Asia, the Foreign Trade Policy of India 2015-2020 has also highlighted the importance of the INSTC. This transportation route has immense economic and strategic relevance for India, but also because it will bring the following benefits to India (Chatterjee and Singh, 2015):

1. It will reduce the cost of transportation of goods and transit time from India to Eurasia and surrounding regions. To be more specific, the corridor would be 30 percent cheaper and 40 percent shorter than the current route via St. Petersburg to Moscow.

2. India is expected to negotiate the comprehensive economic partnership agreement with the Eurasian Economic Union which includes Armenia, Belarus, Kazakhstan, Kyrgyz Republic, and Russia. Therefore, this corridor would make it easier to access the markets and would boost the competitiveness of India's trade.
3. Given the increasing demand for energy by India and the abundance of natural resources, including petroleum, natural gas, and uranium in Central Asia, this transport route will open many opportunities for both regions. Further, as these sectors are increasingly becoming service oriented, they could benefit from India's expertise in information technology (IT) and IT-enabled services.
4. It will also help participate in China's One Belt, One Road Initiative in a collaborative and cooperative framework.

Trans-Caspian Rail Corridor

The Trans-Caspian International Transport Route is a 4,766 km-long multimodal route connecting China, Kazakhstan, Azerbaijan, Georgia, and Turkey, and finally reaching Europe. This is a multimodal transport corridor that comprises 4,256 km by rail and 508 km by sea.

Once this route is connected with the Baku–Tbilisi–Kars railway, a cargo train launched from China will be able to reach Europe. This project connects Azerbaijan, Georgia, and Turkey directly via rail links.

But the route is characterised by certain disadvantages that need to be addressed before this route becomes fully functional. There are different customs regulations and railway tariffs across countries in the route, which require cooperation to establish single tariffs and harmonised customs procedures. Also the missing links have to be fixed first. This concerns the Baku–Tbilisi–Kars railway connection. Rail line from Baku to Turkey–Georgia border is already completed and modernised. A 4 km long tunnel that connects Georgia and Turkey has been constructed. The only part left to be completed to achieve fully functioning railway connectivity between Turkey and the Caspian region is the construction of a rail line in the Turkish part from the Turkey–Georgia border to Kars. Once this section is completed, the transport route from China to Europe will be uninterrupted.

China–Europe Train Services

China has launched freight train service between Germany, Spain, and France, which will open new trade routes to Europe. This cargo line passes through Kazakhstan, Russia, Belarus, Poland, Germany, France, and finally Spain. The train route holds great importance to China as it is a part of its strategy of developing the new Silk Road (Hutchinson, 2015). However, the problem related to this route is the incompatibility of rail gauges in different countries; for instance, the train which will arrive in Madrid will have to transfer to different wagons at

three points during the trip. This train route has great implications for trade and is expected to bring economic prosperity to both regions.

Limited connectivity in any region is due to lack of collective planning and financing—an aspect often not adequately highlighted in the existing literature—due to which connectivity issues have remained almost a non-starter in several regional fora. Enormous infrastructural deficits still have to be bridged in the Asia–Europe context, including the Eurasian region. One of the most promising developments in this regard is the creation of the AIIB, described here briefly.

Financial Structure

Asian Infrastructure Investment Bank

The AIIB is a multilateral development bank. Its founding members are developing its core philosophy, principles, policies, and operating platform. This is through a participatory process. The AIIB is a modern knowledge-based institution that will focus on the development of infrastructure and other productive sectors in Asia. These sectors include energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development and logistics, etc. Several developed countries such as Britain, Australia, France, Germany, and Italy joined the AIIB, and many developing countries from all over the world have done the same, especially ASEM members like India, Malaysia, Philippines, Thailand, Viet Nam, and many others. BRICS members—China, India, and Russia—are the three largest shareholders, taking a 30.34 percent, 8.52 percent, 6.66 percent stake, respectively. Their voting shares are calculated at 26.06 percent, 7.50 percent, and 5.92 percent (*The Brics Post*, 2016). Since infrastructure in some of these developing economies is greatly needed, the new financial institution is an opportunity that must be capitalised. If long-term financing of major infrastructure projects takes off, raising economic activities including in the Eurasian region might be scaled up.

New Development Bank

The objective of the New Development Bank which was formerly known as BRICS Development Bank is to fund infrastructure projects in developing countries. The New Development Bank of the Brazil, Russia, India, China, and South Africa started in July 2015 with an initial authorised capital of \$100 billion. The basic aim of the bank is to fund infrastructure projects in emerging economies for sustainable development. Last month, the BRICS bank approved its first package of loans. The US\$811 million investment will be directed at renewable energy projects in Brazil, China, South Africa, and India. It is to be seen if this becomes a way to finance the infrastructure projects connecting Europe and Asia. Recent reports do suggest cooperation and possible initiatives in that direction.

The European Investment Bank (EIB) has shown its intent to sign a cooperation agreement with the BRICS' New Development Bank. Further, the EIB and the AIIB agreed to broaden cooperation to support investment in 'strategically important projects'. These are expected to be primarily in infrastructure projects (RT, 2016).

Challenges in Asia–Europe Connectivity

1. **ASEM needs a common focus:** Asia is not one market; it is not one economy like the European Union. The complexity and the diversity of Asia have to be recognised first. China is different from India. ASEAN is different from South Asian countries. It is important to understand what key issues are relevant to the whole group of Asian economies, and where cooperation is required on subregions or even on bilateral relations (Friends of Europe, 2014). Connectivity provides a window of opportunity to prioritise and consolidate all-round cooperation so as to fulfil the true potential of ASEM (Peiyan, 2016). Thus, the trans-continental heterogeneity needs to be addressed.
2. **Missing links:** The China–Europe freight train, since its launch in 2015, has made more than 1,000 shifts. However, the cost in terms of time and resources remains high (19 days) due to the frequent switch of trains and rails on account of missing links. If trains did not have to change railway gauge en route from China to Europe, the 19-day journey could probably be shortened to only 14.
3. **Border crossings and customs procedures:** Pilot projects have measured the border stopping times for container block trains coming from Asia and going through to Eastern Europe. They varied from 45 minutes to 6, 8, or even 12 hours (Friends of Europe, 2015). At the Mongolian border, a train can sometimes be allowed to pass through smoothly; but on another day, it may be stopped for 48 hours without any explanation. Unnecessary delays have to be addressed to boost the efficiency of border crossings.
4. **Lack of harmonised regulatory framework:** Obvious problems arise when there are asymmetric regulations instead of coherent regulations between different countries and regions. Governments have to facilitate connectivity, and it is for this that regulations should be in place (Friends of Europe, 2015).
5. **Financing:** As per the Asian Development Bank (ADB) report (2012), China, India, and Indonesia represent the top three countries in terms of infrastructure investment needed during the 2010–2020 period. The total amount of infrastructure investment needed in Asia was estimated to be more than \$8 trillion. Meeting the huge financing needs of almost \$800 billion per year during this period is one of the largest challenges facing many developing countries in Asia, as per the report. The Silk Road Fund, AIIB, and the BRICS Bank are necessary in addressing the infrastructure deficits of Asia but are possibly not sufficient, given the quantum of funds required to address this deficit. Thus, more institutional mechanisms for infrastructural financing is needed.

Policy Suggestions

The list of challenges by no means is exhaustive. Enormous challenges remain on account of security considerations in the region. To address the above-mentioned and other challenges, two specific policy recommendations for strengthening Asia–Europe connectivity could include:

1. **Inter-secretariat cooperation:** Regional organisations are working in areas concerned with their regions only often in isolation, with very limited knowledge of the events taking place in the other parts of the world. In such a scenario, any initiative at strengthening connectivity among two regions first requires that coordination across regional organisations and their respective secretariats such as the European Commission, Eurasian Economic Community (EEC), South Asian Association for Regional Cooperation (SAARC) Secretariat, and the Association of Southeast Asian Nations (ASEAN) Secretariat.
2. **Inter-institutional collaboration:** The issues need to be studied further, especially to demonstrate the potential. Institutional-level cooperation among Asian and European institutes will help better identify, understand, and address the common challenges that the two regions face. Thus, it is recommended that institutions—such as BRUEGEL, Brussels; Caspian Strategy Institute (HASEN), Istanbul; Research and Information System for Developing countries (RIS), New Delhi; and Economic Research Institute for ASEAN and East Asia (ERIA), Jakarta—collaborate and work for the better connectivity of the two regions under the aegis of ASEM. We may also find other think tanks from other countries such as China, Central Asia, Russia, and others to join. A group of experts from such think tanks could be constituted to deliberate on the nature, scope, and modalities of inter-institutional cooperation that could directly feed into the economic cooperation policymaking process of the ASEM.

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