

# “Connecting Europe and Asia” – conference summary

*Compiled by Andrea Hofer, Carmencita Nader-Uher and Franz Nauschnigg<sup>1</sup>*

On December 14, 2018, the Oesterreichische Nationalbank (OeNB) and the Reinventing Bretton Woods Committee (RBWC) hosted the conference “Connecting Europe and Asia.” Experts from academia, business and politics discussed ways to improve cooperation between, and to better connect, Europe and Asia to the benefit of both sides. The special value added of the conference was the balanced mixture of macroeconomic and microeconomic aspects of connectivity. Speakers and participants looked at big international trends and showed practical examples of how individual companies facilitate connectivity between Europe and Asia as part of their daily business.

*Ewald Nowotny*, Governor of the OeNB, pointed out that the topic of the conference is not just relevant for Austria but for the whole of Europe, including Central and Eastern Europe. He stated that we must be aware that Asia will very soon become the most important economic power center of the world. Some people see Asia’s economic rise as a challenge. However, according to Nowotny this is a mistake because foreign trade is not a zero-sum game. If China and Asia in general get richer this is not a problem for the rest of the world, but an opportunity. If one country becomes richer, the rest of the world also profits economically. “We will all win.” This is one lesson from the worldwide success story seen after World War II. Nowotny reminded the audience that when the United States of America helped Europe, also the U.S.A. profited.

Of course, for welfare, not total GDP is relevant, but it is GDP per capita that matters. For this reason, Nowotny stated, many consider Europe the best place in the world to live. Hopefully, it will stay the best place. It has economic strength and social structures that are attractive. Nowotny also stressed the importance of connections and mode of transport in our world. Connectivity is especially important for landlocked countries like Austria.

*Marc Uzan*, Executive Director of the RBWC, emphasized the importance of the economic ties of the two continents. Asian markets account for one-third of all exports from the EU, and almost half of all goods and services imported by the EU come from Asian countries. Together, Europe and Asia account for almost 70% of the world population and over 60% of world GDP. Economic relationships need to be able to rely on effective, functioning and sustainable connectivity, in other words on the physical and nonphysical infrastructure through which goods, services and ideas can flow.

In September 2018, the EU approved a new strategy for connectivity between Europe and Asia. Connectivity is a central element of the EU as a political project based on market integration. The EU can offer its regulatory experience, technical expertise and funding opportunities, which benefits project interoperability and convergence, and promotes fiscal and sound growth.

Uzan emphasized that China has made a remarkable rise in Central Asia over the last 15 years and is now the main donor and investor. The cause of this rise was

<sup>1</sup> *Oesterreichische Nationalbank, European Affairs and International Financial Organizations Division, andrea.hofer@oenb.at, carmencita.nader-uher@oenb.at and franz.nauschnigg@oenb.at.*

the announcement by Chinese President Xi Jinping of his “Silk Road Economic Belt” plan during his visit in Astana (Kazakhstan) in 2013. The “One Belt, One Road” initiative is clearly a major investment expanding transport and energy corridors, connectivity and establishing new transport links between Asia and Europe. Both, China and the EU, have recently positioned themselves in Central Asia as leading players. However, so far their endeavors in Central Asia have been separate. This may be an opportune time to reshape the EU’s relations with China to contribute to the sustainable development of Central Asia. Some analysts have suggested that China should focus on hard infrastructure while the EU focuses on soft infrastructure, which could offer a powerful base of cooperation for development in the region. At the same time, there are clearly substantial challenges for a possible cooperation between the EU and China.

### **Panel 1: Integration in Europe: European Union (EU) and Eurasia**

*Franz Nauschnigg*, OeNB, stated that closer economic integration especially between the EU and the Eurasian Economic Union (EAEU) would be beneficial for both sides but for this to happen political obstacles need to be overcome.

*Elena Rovenskaya*, International Institute for Applied Systems Analysis (IIASA), gave an overview of the IIASA’s work on challenges and opportunities for economic integration in the wider European and Eurasian space, which would benefit all.

*William Tompson*, OECD, referred to the fact that infrastructure investments must be accompanied by a better business environment and human capital formation if their full benefits are to materialize. Distance remains a key factor; multilateralism would be helpful but is hampered by rising sovereignty sensibilities. The Chinese “One Belt, One Road” (OBOR) initiative has become a brand name, encompassing much more than originally planned.

*Petros Sourmelis*, European Commission, gave an overview of EU relations with countries in Central, Eastern and Southeastern Europe (CESEE). EAEU-internal trade barriers sometimes hamper the EU’s trade with the EAEU.

*Tatyana Valovaya*, Eurasian Economic Commission, offered an EAEU perspective, underlining that a substantial degree of integration has been achieved in a very short time span but that much still needs to be done. She argued that closer EU-EAEU cooperation would benefit both sides.

### **Panel 2: Connecting Europe and Asia: the land dimension**

*Rudolf Schicker*, Coordinator of the Danube Region, emphasized that connectivity plays an important role in the Danube Region as well as in the Eurasian region.

*David Gould*, World Bank, stressed the different dimensions of connectivity – trade, FDI, transport and migration. He diagnosed that progress in lowering barriers has stalled.

*Jonas Grätz*, OSCE, explained the work of the OSCE, shedding light on different dimensions, i.e. security-related, economic and humanitarian aspects. He pointed out that around 40% of inland transport time is lost at borders.

*Mario Holzner*, The Vienna Institute for International Economic Studies (wiiw), stressed the lack of infrastructure in the CESEE region. China finances infrastructure investments mainly via loans, while the EU provides grants. He underlined that it is important to enhance the connections of railways and roads with ports.

*Alexey Grom*, United Transport and Logistics Company (UTLC), stressed the rapid growth in rail transports between China and the EU carried out by UTLC. He expects that further improvements in transport time and volumes will improve rail transport’s market share in EU-China trade.

*Osman Erol*, Rail Cargo Logistics Austria, explained that his company, which is the second biggest rail transport provider in the EU after Deutsche Bahn, is active in EU-China transports, seeking to develop the southern route. The company is also considering new liquefied natural gas (LNG) locomotives, which are more environmentally friendly than those powered by diesel. According to Erol, it has not yet been decided where a possible rail terminal might be located.

### **Panel 3: Connecting Europe and Asia: the maritime dimension**

*Ernst Schmied*, Danube Macro Region, stressed the importance of supply chain logistics.

*Massimo Deandreis*, SRM Economic Research Centre related to Intesa Sanpaolo Bank, emphasized that the Mediterranean ports are gaining in competitiveness. In his view, rail and ship are not competitors, but simply two different means of connectivity: one for intra-European development and the other for connecting Europe and China.

*Igor Hribar*, DB Cargo AG, pointed out that the competitiveness of ports heavily depends on hinterland logistics (rail and road) and container logistics.

*Wojciech Szymulewicz*, Adriatic Gate Container Terminal (Rijeka port), added how important it is to integrate all modes of transport to improve the process and increase efficiency. Containerization creates very high productivity gains.

*Zeno D’Agostino*, Trieste Port Authority, stressed that connectivity is improved by creating competitive advantages for ports, e.g. by integrating ports and dry ports, logistical platforms (intermodality) and “free zones” (areas for logistics and manufacturing). Trieste has 18m deep water for easy access by ships, excellent road and rail links and proximity to markets. To conclude, he proposed that Europe should also create logistics infrastructures for Africa.

*Stephan Barisitz*, OeNB, offered insights into the history of the Old Silk Road and highlighted the three dimensions of the New Silk Road: (1) Overland Silk Road (Silk Road Economic Belt – SREB): rail transports account for 3% to 8% of all Eurasian transports; (2) Maritime Silk Road (MSR): ship transports account for 80% to 90%; (3) air transports account for 6% to 12%.

### **Panel 4: Europe and Asia: financial connectivity, risks, challenges and opportunities**

*Ousmène Jacques Mandeng*, Accenture and London School of Economics, stated that blockchain technology might contribute to connecting Europe and Asia and proposed that one currency could become the clearing currency of the OBOR corridor.

*Giorgi Kvirikashvili*, Former Prime Minister of Georgia, distinguished between two main concepts of connectivity between Europe and Asia, i.e. the EU strategy and the OBOR initiative. The EU is working on five dimensions of Eurasian connectivity (transport, customs, energy, digital, financial) while OBOR is seen as a call for international engagement to close huge infrastructure gaps in the regional neighborhood of China. In the discussion, Kvirikashvili pointed out that, as long as the Chinese currency does not fulfill certain criteria like transparency, convertibility etc., Georgia will remain unwilling to build up FX reserves in renminbi.

*Baurzhan Bektemirov*, Astana International Financial Centre (AIFC), identified two dimensions of financial connectivity, i.e. trade (within existing infrastructure) and investment (into building new infrastructure), both of which use several underlying currencies (USD, EUR, SDR, RMB, CHF). For investment purposes, capital markets need to be developed.

*Mattia Romani*, European Bank for Reconstruction and Development (EBRD), stated that financial connectivity between Europe and Asia does not yet exist, and that even the EBRD fails to invest because there is a systemic lack of bankable projects in the region that meet the EBRD's standards. Since 2013, China has invested an annual average of USD 100 billion in the core region of the Belt and Road Initiative (BRI), while international financial investors invest only USD 10 billion per year. China heavily invests in fossil fuels abroad while pursuing the opposite policy at home.

*Naoyuki Yoshino*, Asian Development Bank Institute (ADBI) stated that Asia could learn a lot from Europe in terms of (1) infrastructure and public capital, (2) SMEs and start-up businesses, (3) human capital, (4) state-owned enterprises and (5) sovereign debt and household debt. As there are positive externalities in infrastructure investment, governments should subsidize it.

Summing up, the great majority of speakers and participants shared the opinion that, for geographic, historic, cultural and economic reasons, connecting Europe and Asia would be beneficial for both sides – a win-win game.