On the Importance of Soft Connectivity between Asia and Europe

Dr. Serhat Ünaldi, Senior Manager Japan, South Korea, Australia, New Zealand

September 12th 2018
Asia and Europe as Trade Partners: Status Quo

**German Exports to World Regions**

- Asia is the most important destination for German exports (EUR 154 billion in value);
- FTA negotiations concluded between EU and South Korea (since 2011), EU and Japan (signed in 2018), EU and Vietnam, EU and Singapore (negotiations finalised in 2018)
- Additional FTAs and investment agreements between the EU and countries in Asia-Pacific under negotiation (e.g. China, several ASEAN members, Australia, New Zealand)

Source: WTO
Benefits: Free Trade Agreements…

✓ ... stimulate economic growth and foster healthy competition on the basis of commonly agreed upon regulations.

✓ ... offering consumers a broader range of high-quality products

✓ ... create incentives for Foreign Direct Investment.

✓ ... create education and job opportunities as foreign businesses enter a country’s market

✓ ... spread values and standardised regulations along with products and services
Example: Positive Impact of EU-Korea FTA (2011-2016)

Growth of Exports and Imports Between EU and South Korea (2011-2016)

<table>
<thead>
<tr>
<th></th>
<th>trade in goods</th>
<th>(partially) liberalised goods</th>
<th>trade in services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports from EU</td>
<td>55%</td>
<td>(51%) 71%</td>
<td>50%</td>
</tr>
<tr>
<td>Imports into EU</td>
<td>5% *)</td>
<td>(64%) 35%</td>
<td>35%</td>
</tr>
</tbody>
</table>

*) (as opposed to a 2% growth of imports from other countries)

- Elimination of 99% of tariffs
- Elimination of non tariff barriers (NTBs) through sectorial measures
- ¾ of SMEs have increased their scale of operation

Source: Global Trade Magazine
Foreign Direct Investment (FDI)

✅ In 2017, global FDI decreased by 23%. In Q1 2018, global FDI fell by 44%.

- But: Global FDI flow to Asia remained stable. Asia was the largest recipient of FDI in 2017.

Example: Inflow of Japanese FDI into Southeast Asia

- Japan is one of Southeast Asia's main sources of FDI, ASEAN is one of Japan's main FDI destination

- Main area of Japanese FDI in Southeast Asia are the manufacturing industries

- More than 81% of occupants in industrial parks KIIC, GIIC in Jakarta are Japanese-affiliated companies

Source: Federal Reserve Bank of San Francisco
Foreign Direct Investment (FDI)

FDI in Germany – Inwards

- Approx. 2.6 million jobs in Germany and 7.6 million jobs in total in the EU are provided by foreign owned enterprises.

- UNCTAD lists Germany as 11th top economy in terms of investment inflow.

- However, in recent years public concern over the risks of foreign investment in Germany has grown.

  - Example: Acquisition of German company KUKA by Chinese enterprise MIDEA in 2016
  - Fear of loss of competitive advantage through (un)intentional disclosure of crucial business information

Source: The Robot Report
Foreign Direct Investment (FDI)

FDI in Germany – Outwards

Foreign Investment of German Industrial Companies, by Region of Destination
(in percent, multiple answers possible)

Source: DIHK survey on foreign investments of German industry in 2018
Innovation → Cooperation

Industrie 4.0 & Society 5.0

Industrialisation

Industrie 4.0

Society 5.0
Innovation → Cooperation

Industrie 4.0 & Society 5.0

- Memorandum of Understanding: setting outlines for future collaborations
- „Hannover Declaration“ between BMWi (Germany), METI and MIC (Japan), 2017: MoU regarding cooperation in standardisation, IT security, qualification and SME support
- DFKI (Germany) and AIST (Japan), 2017: MoU in the Field of Information and Communications Technology
Protectionism negatively impacts the global system of free trading networks.

- Imposition of extensive tariffs on foreign goods and services by the US administration under President Trump
- Brexit after the referendum in June 2016
- China’s reluctance to open its market and to establish a level playing field → looming trade war China – USA – other liberal democracies

The strengthening of economic ties between two of the economically most vibrant and prosperous world regions can also strengthen political cooperation.
Future Challenges

Extension of Rules-Based Open Markets between Europe and Asia
- Countering growing protectionism
- Reforming international institutions
- Supporting economic growth
- Spreading information about the advantages of FTAs and open markets
- Increasing transparency of ongoing processes / negotiations

Creating New Business Opportunities Within a Rule-Based Open Market System

Further International Standardisation
- Facilitating international trade and cooperation by making complex licensing procedures redundant
- Increasing consumer protection
- Developing new cyber security solutions
- Finding the right balance between cooperation and protection of intellectual property

Raising Public Awareness

Cooperation in Innovation

Dr. Serhat Ünaldi, Senior Manager Japan, South Korea, Australia, New Zealand
20. September 2018
Thank you!

Dr. Serhat Ünaldi  
Senior Manager Japan, South Korea, Australia and New Zealand  
s.uenaldi@apa.bdi.eu

September 12th 2018