Economic Integration of Eurasia: Opportunities and Challenges of Global Significance

Presentation at the
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Outline of Presentation

- Background on Eurasian integration
- Key (super)continental linkages

Energy trade	Capital flows
Non-energy trade	Migration
Drug trade	Communication and knowledge

- Development of institutional infrastructure for regional cooperation
- Key questions for future integration of Eurasia
- Tentative policy implications
- Possible implications for Turkey

1. Background on Eurasia

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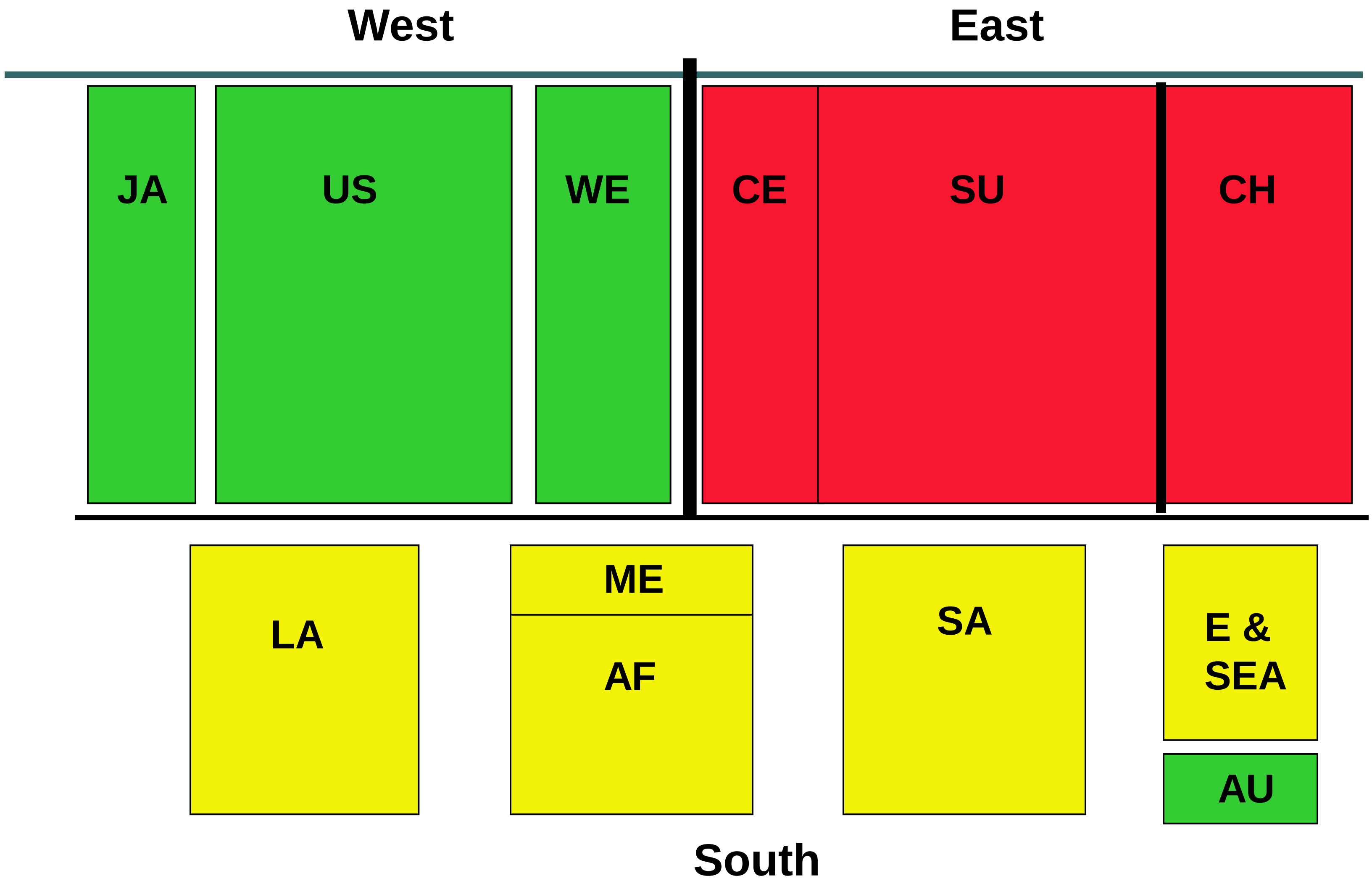
Silk Road

The world of yesterday

(1955-1985)



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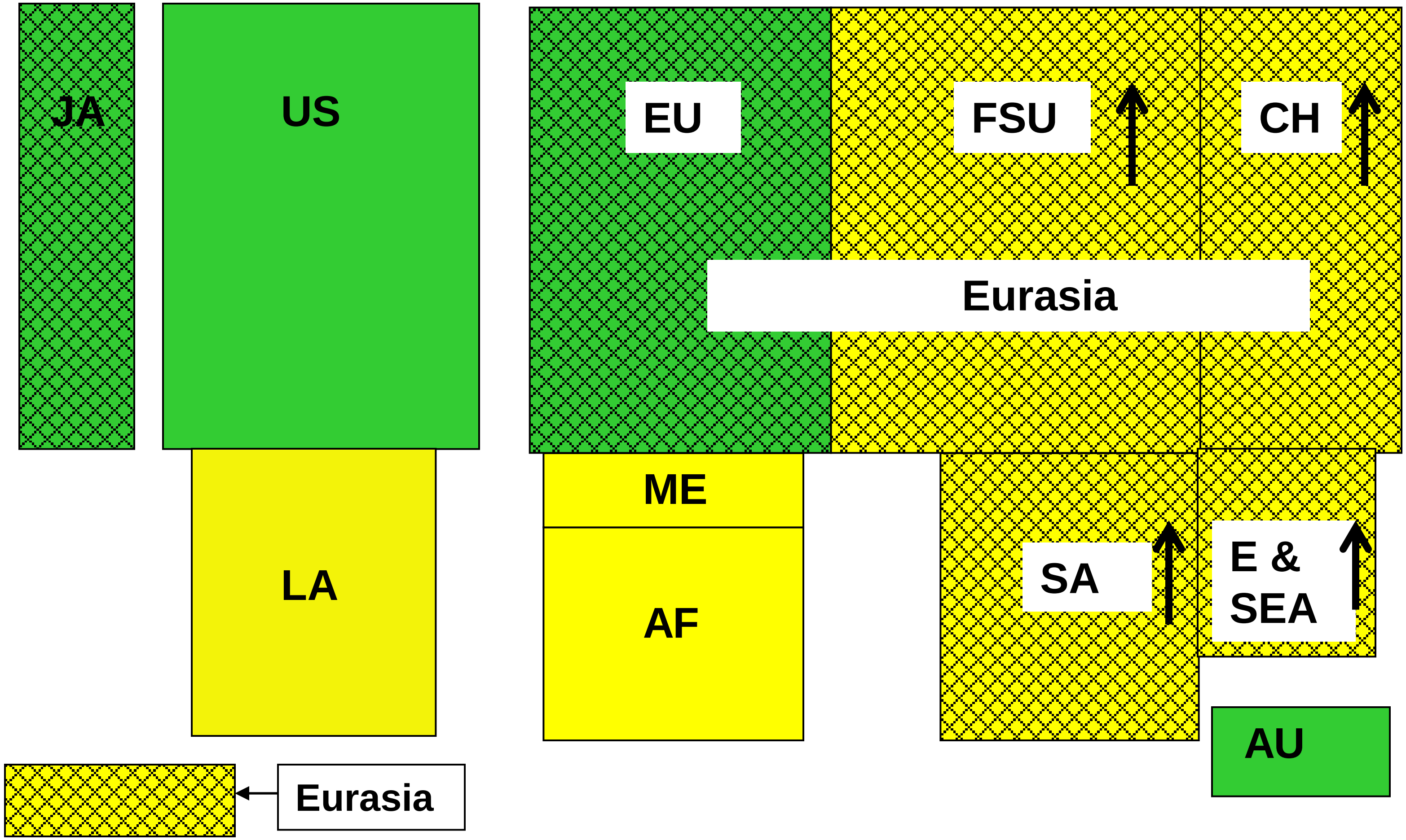
The world of today and tomorrow (1990-2020)



Global Population Growth & Composition

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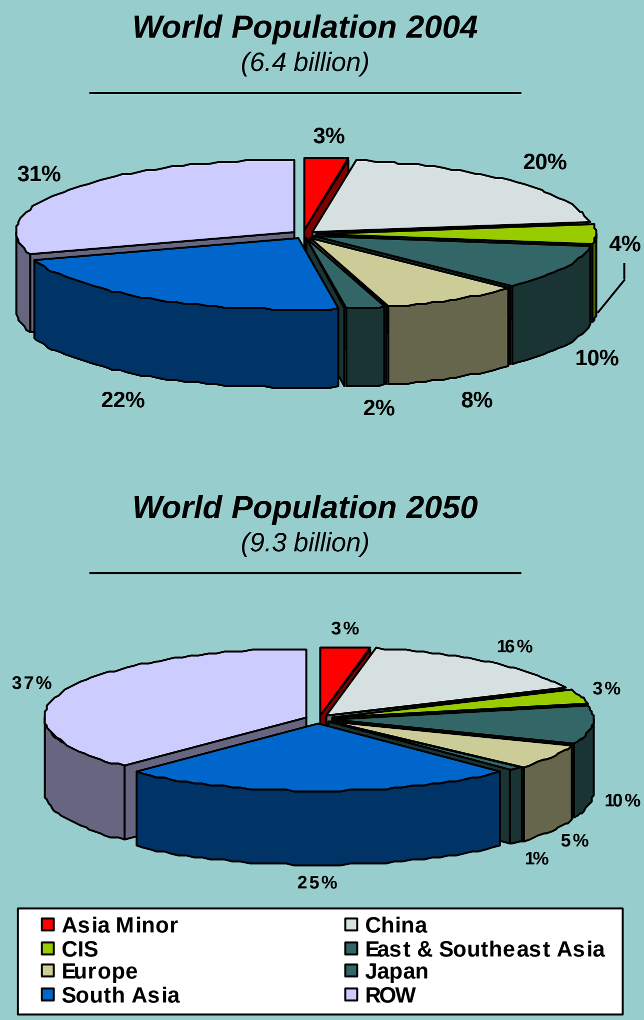

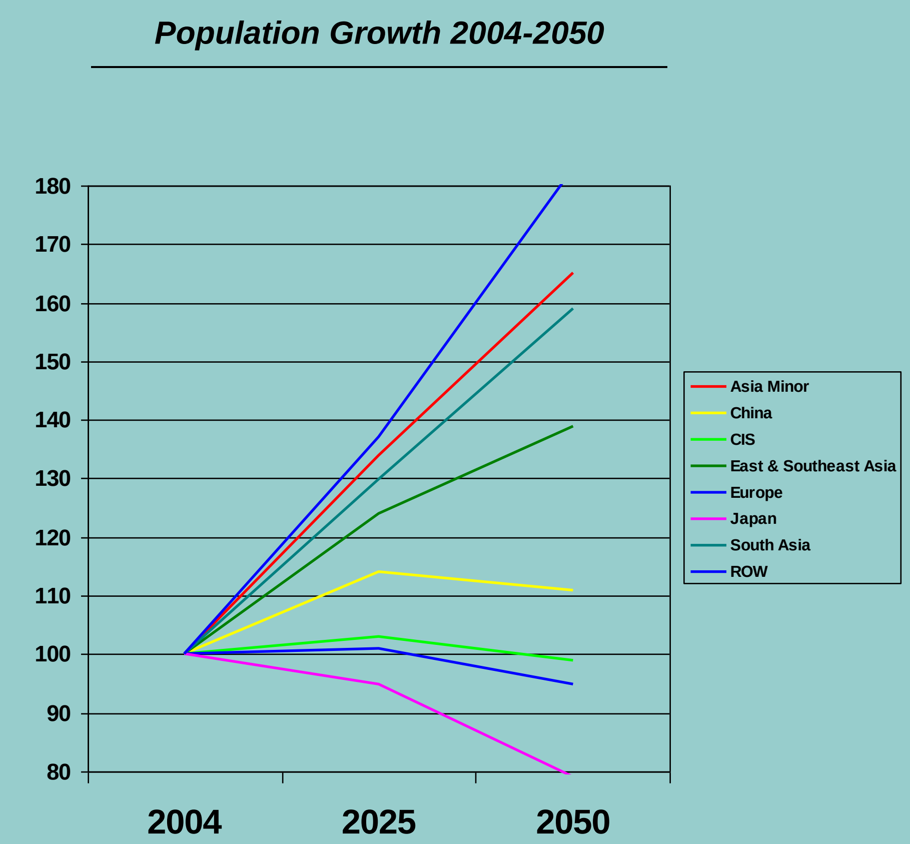

In 2003 Eurasia's GDP 53% of World GDP; by 2050 perhaps 60% or more.

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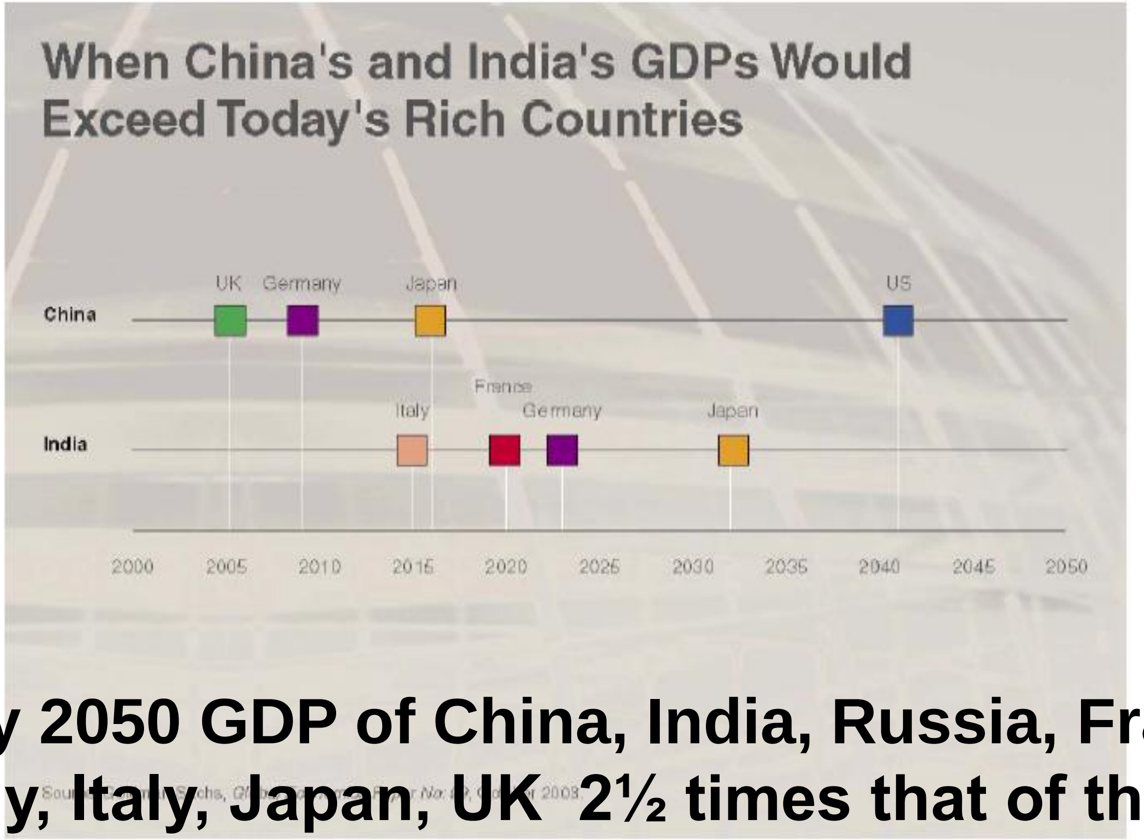
When China’s and India’s GDP would exceed...



...and by 2050 GDP of China, India, Russia, France, Germany, Italy, Japan, UK 2½ times that of the US

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2. Key Eurasian Economic Linkages as Potential Drivers of Growth

- Energy Trade and Transport
- Non-Energy Trade and Transport
- Illicit Drug Trade
- Capital Flows
- Migration Flows
- Communication and Knowledge

A. Energy Trade and Transport

A key sector for regional integration on the super-continent

- Oil (25% of world reserves, 36% of production, 55% of consumption)
- Gas (57% of world reserves, 50% of production, 57% of consumption)
- Electricity

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Energy

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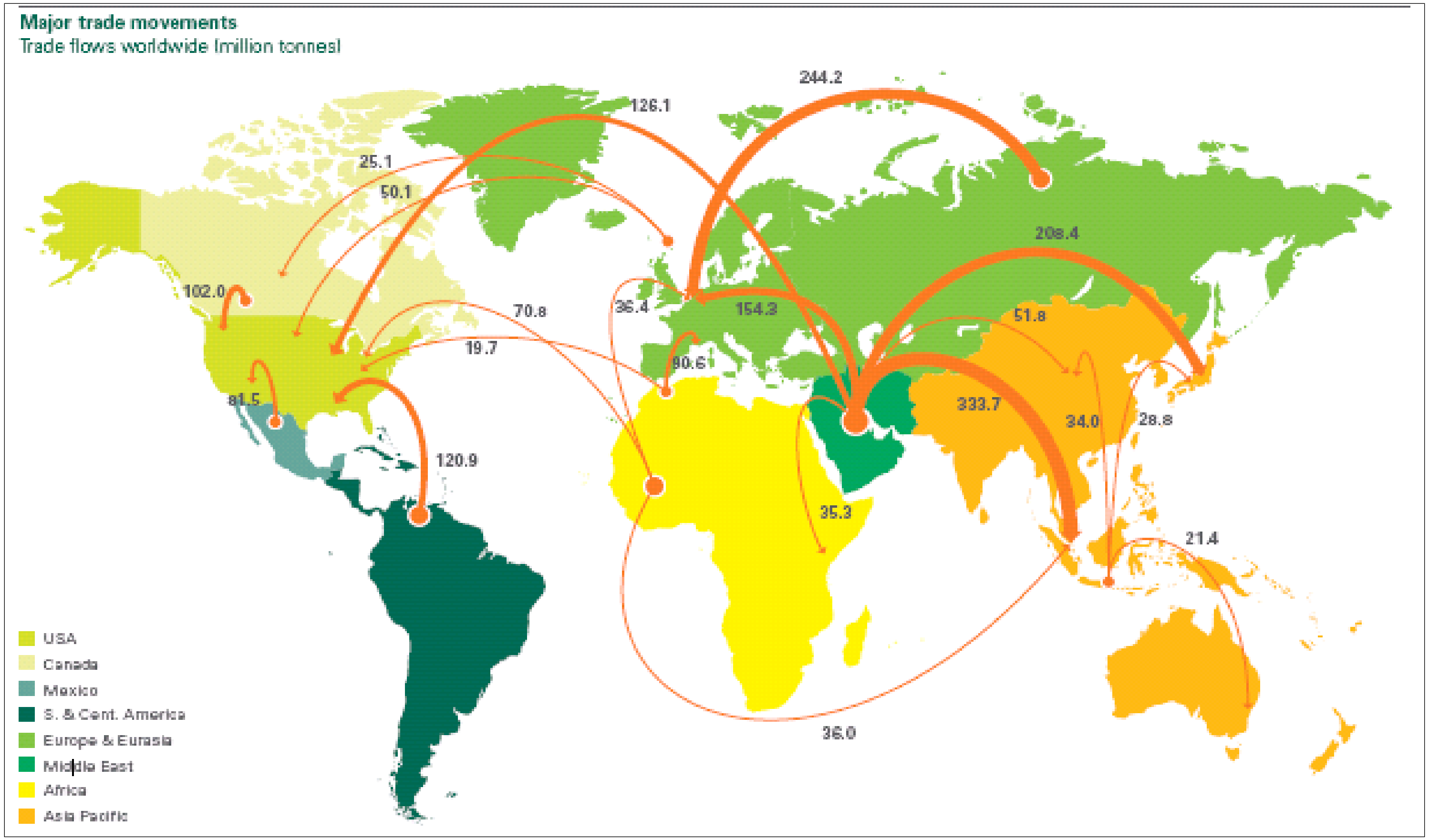
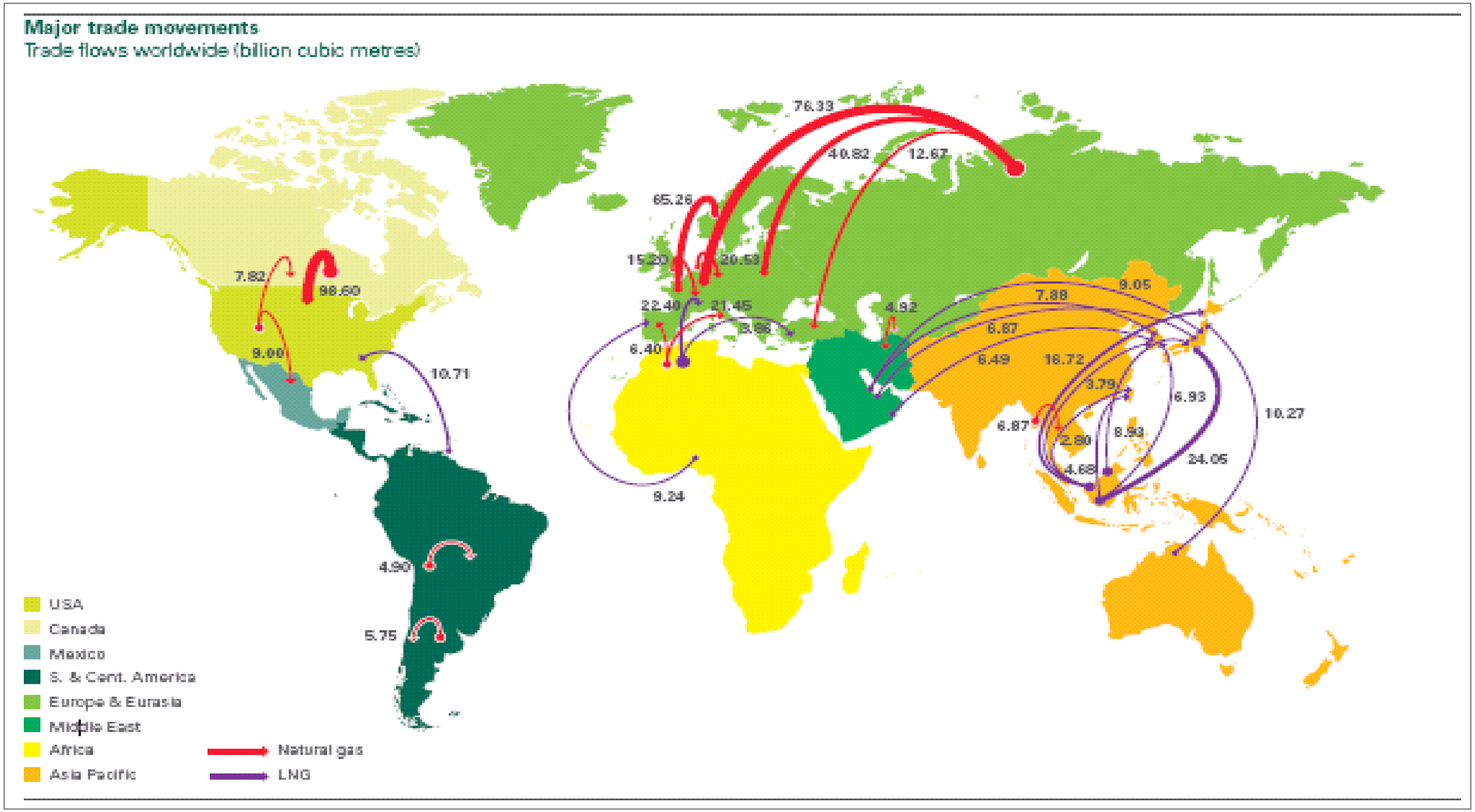
Major Oil and Gas Flows

Principal Oil Flows in the World (mostly within Eurasia + Arab Peninsula)



BP 2004 Statistical Review of World Energy

Principal Gas Flows (no trans-oceanic flows)



BP 2004 Statistical Review of World Energy

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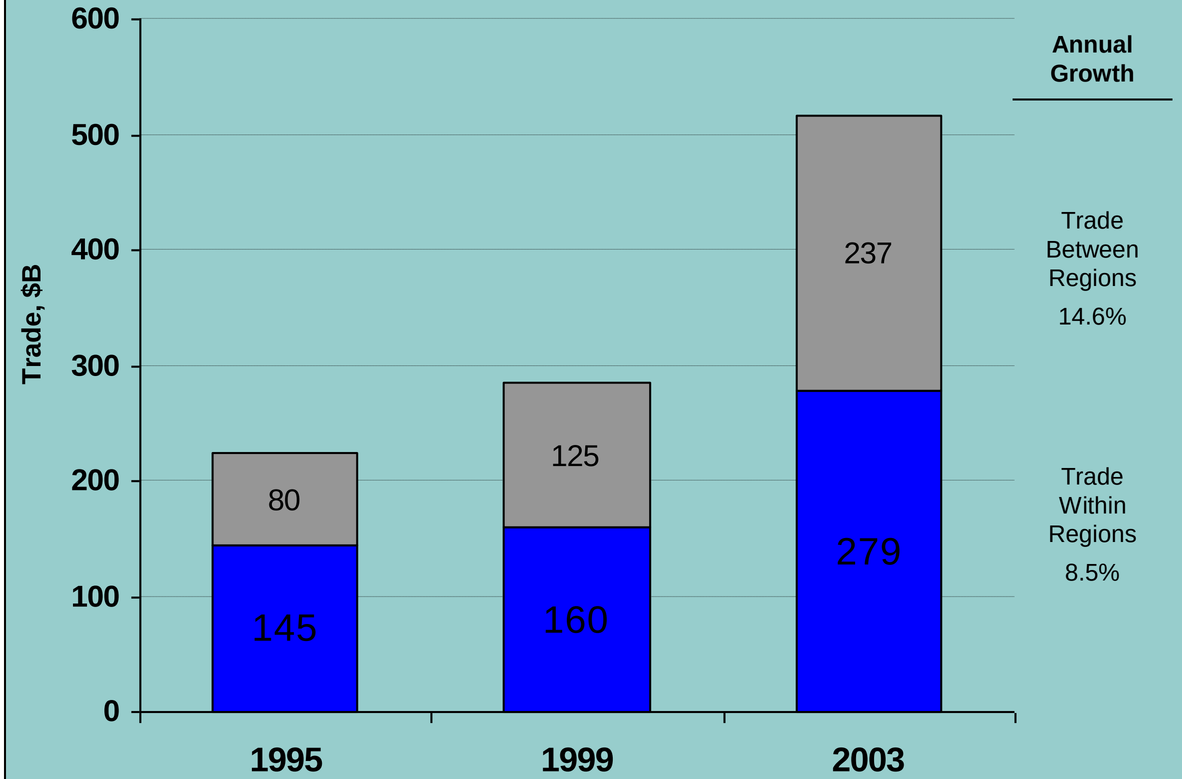
Rapid Growth of Intra- and Inter-regional of Energy Trade in Eurasia

Energy Trade Within and Between Eurasian Regions



- Fastest growth in energy trade has been inter-regional (tripling for 1995-2003, versus doubling for intra-regional trade)
- Not surprisingly strongest export growth from Asia Minor and CIS
- All regions but CIS and Asia Minor are net importers of energy

Source: UN COMTRADE Database.

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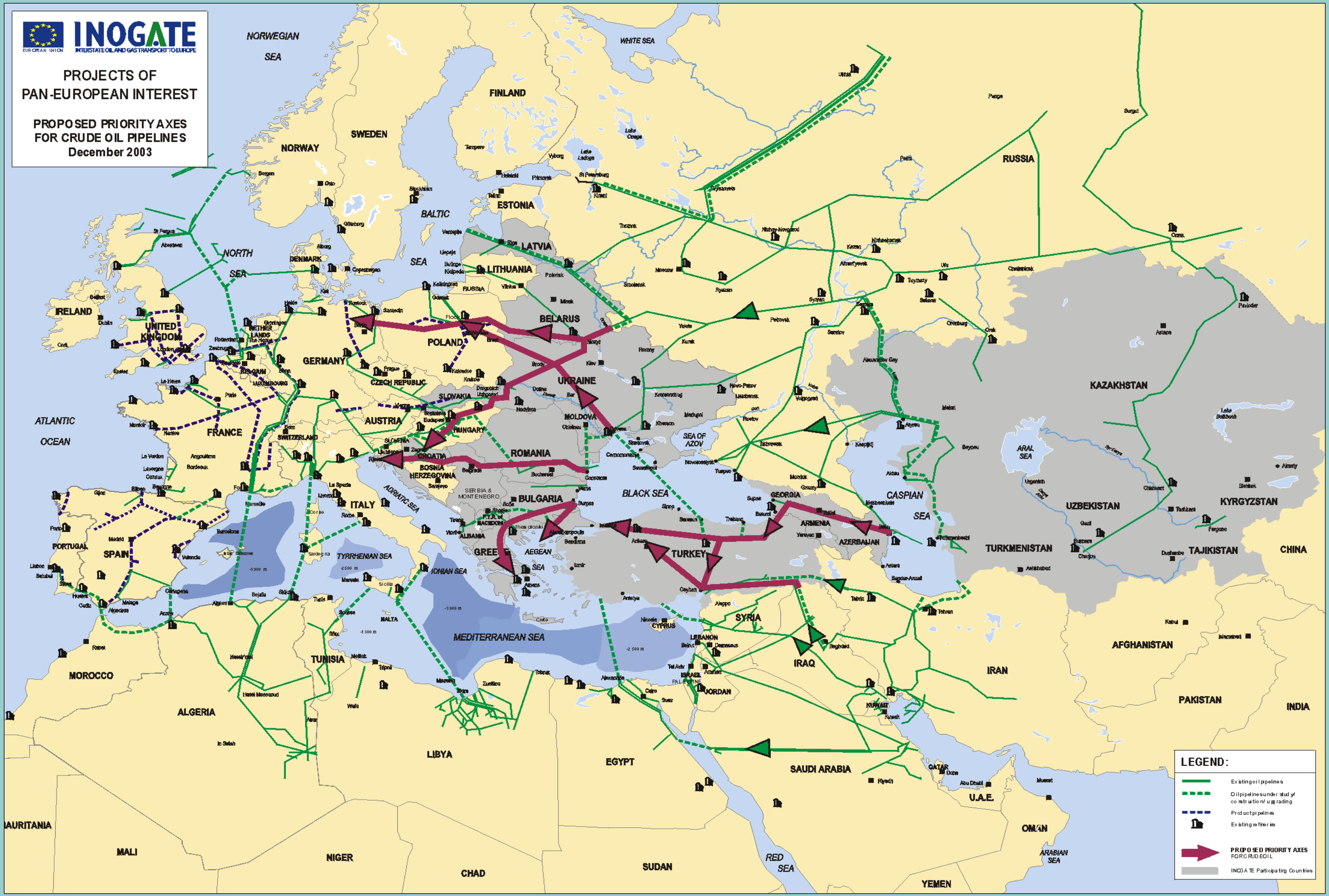
Oil Transport Routes



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Natural Gas Transport Routes

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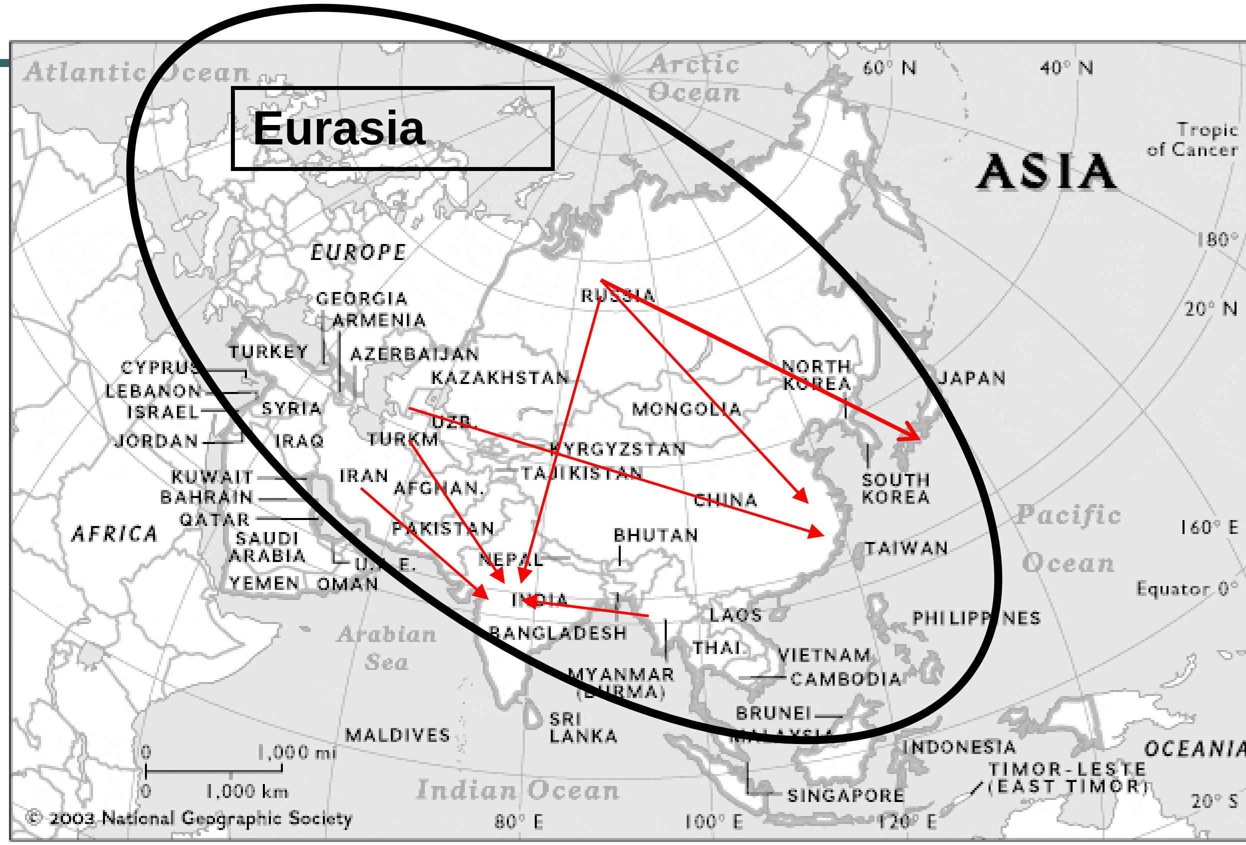
Future Energy Flows to the East and South



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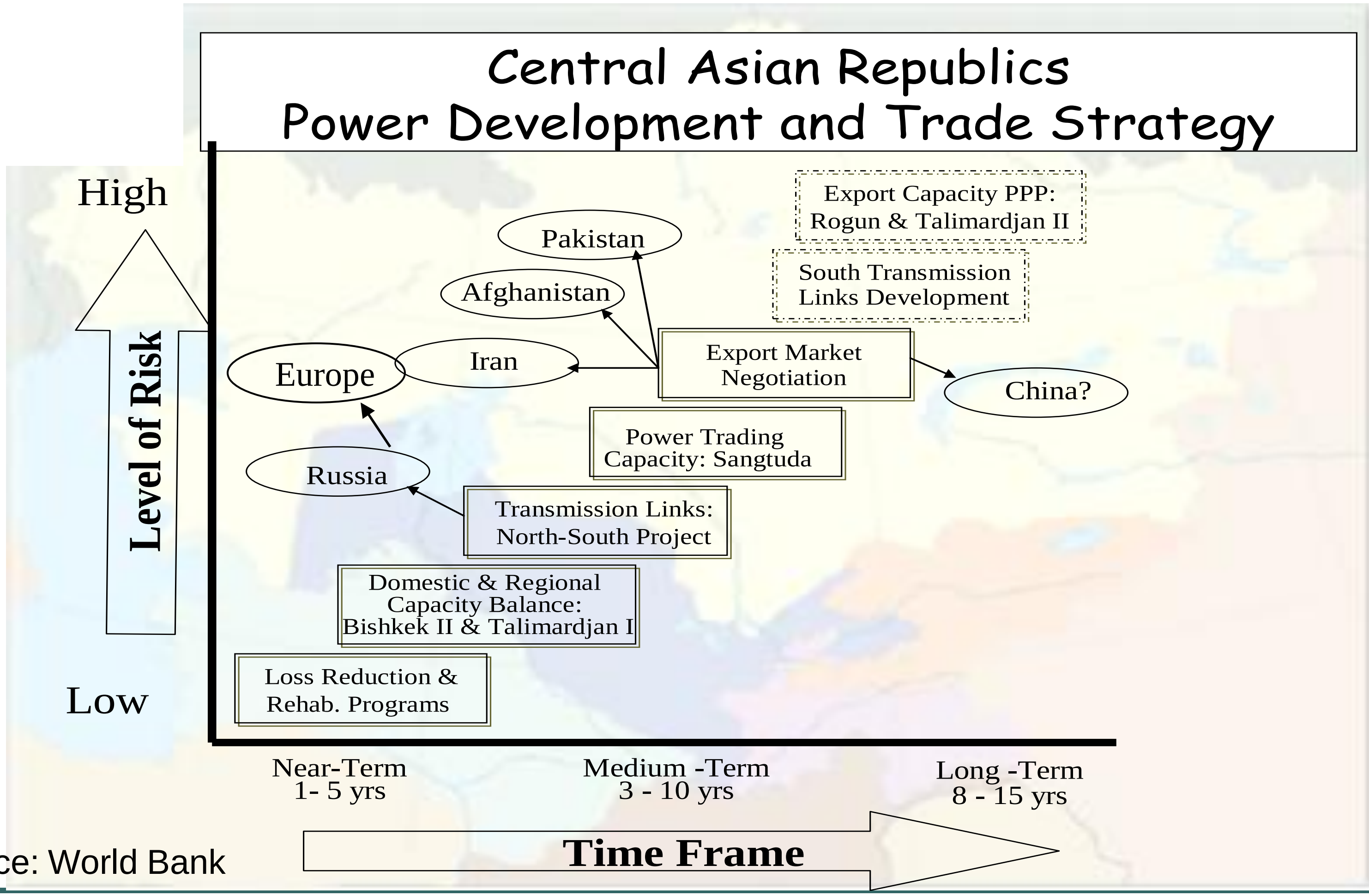
Major Oil and Gas Flows

Electricity Export Options for Central Asia



Source: World Bank

Energy Sector Integration: Conclusions

- Major opportunities for integration in Eurasia given dynamic demand/supply outlook
- Major challenges for energy networks
  - Investments (+ improvements in O&M)
  - Financing (PPPs)
  - Regulation
  - Security
  - Political competition for dedicated supplies

B. Non-Energy Trade and Transport

- Trade is main focus of traditional integration analysis
- Three major trade blocs in Eurasia
  - Europe, CIS, Asia, with rapid growth in trade
  - Much trade with rest of world, esp. N. America
  - But trade within and among Eurasian trade blocs more important than with N. America

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Non-Energy Trade and Transport

Major Trading Blocs

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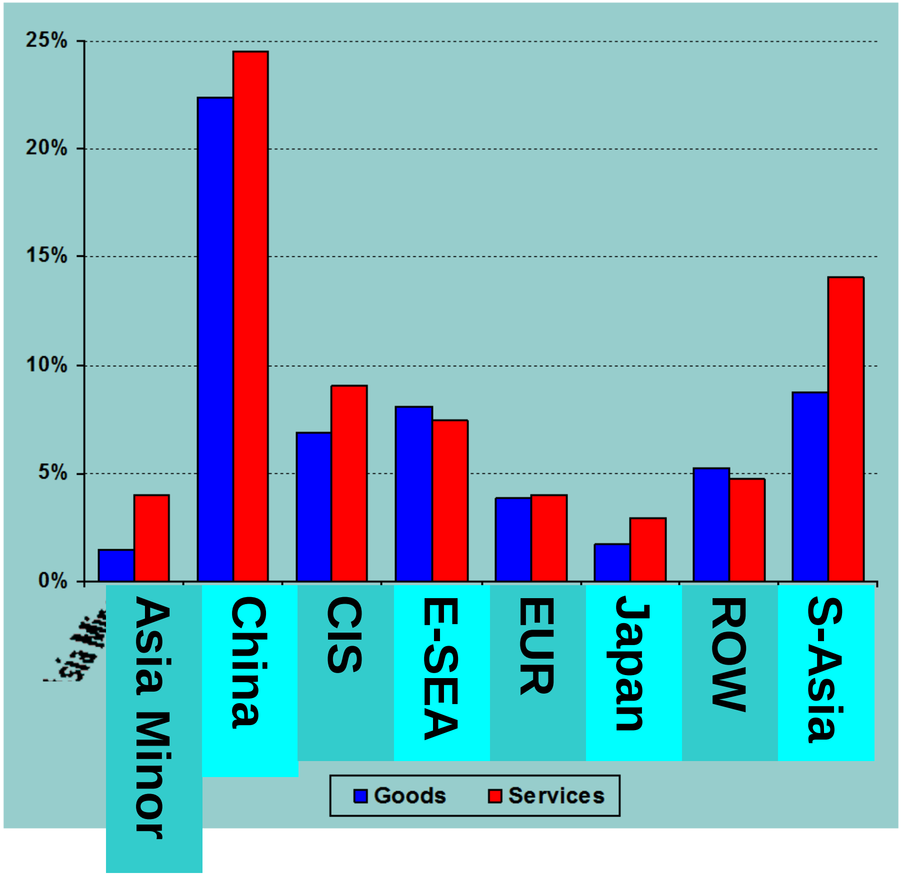
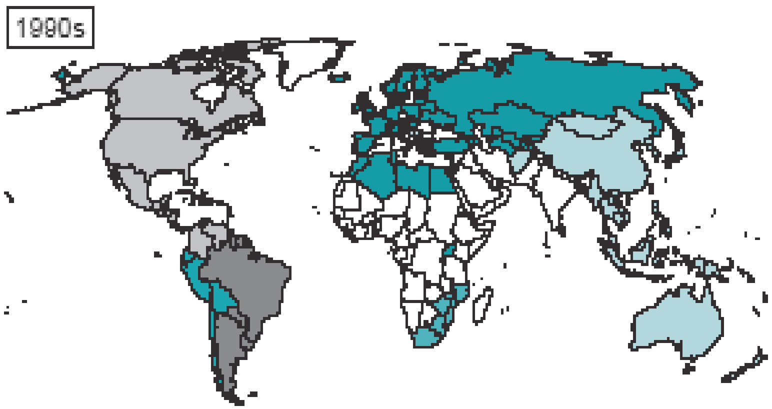
Major other trade links

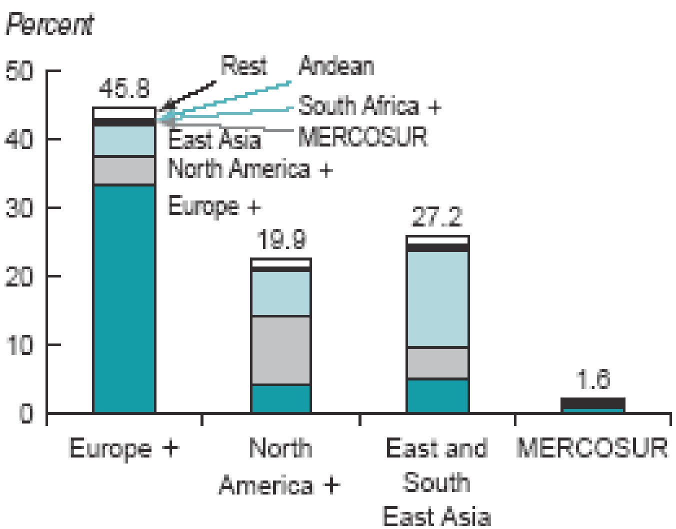
Growth in Exports of Goods and Services
(By Region, 1992-2002)



Evolving Trade Blocks

. . . and in the 1990s, ECA emerges and East Asia trades more with itself than with the U.S. and EU.



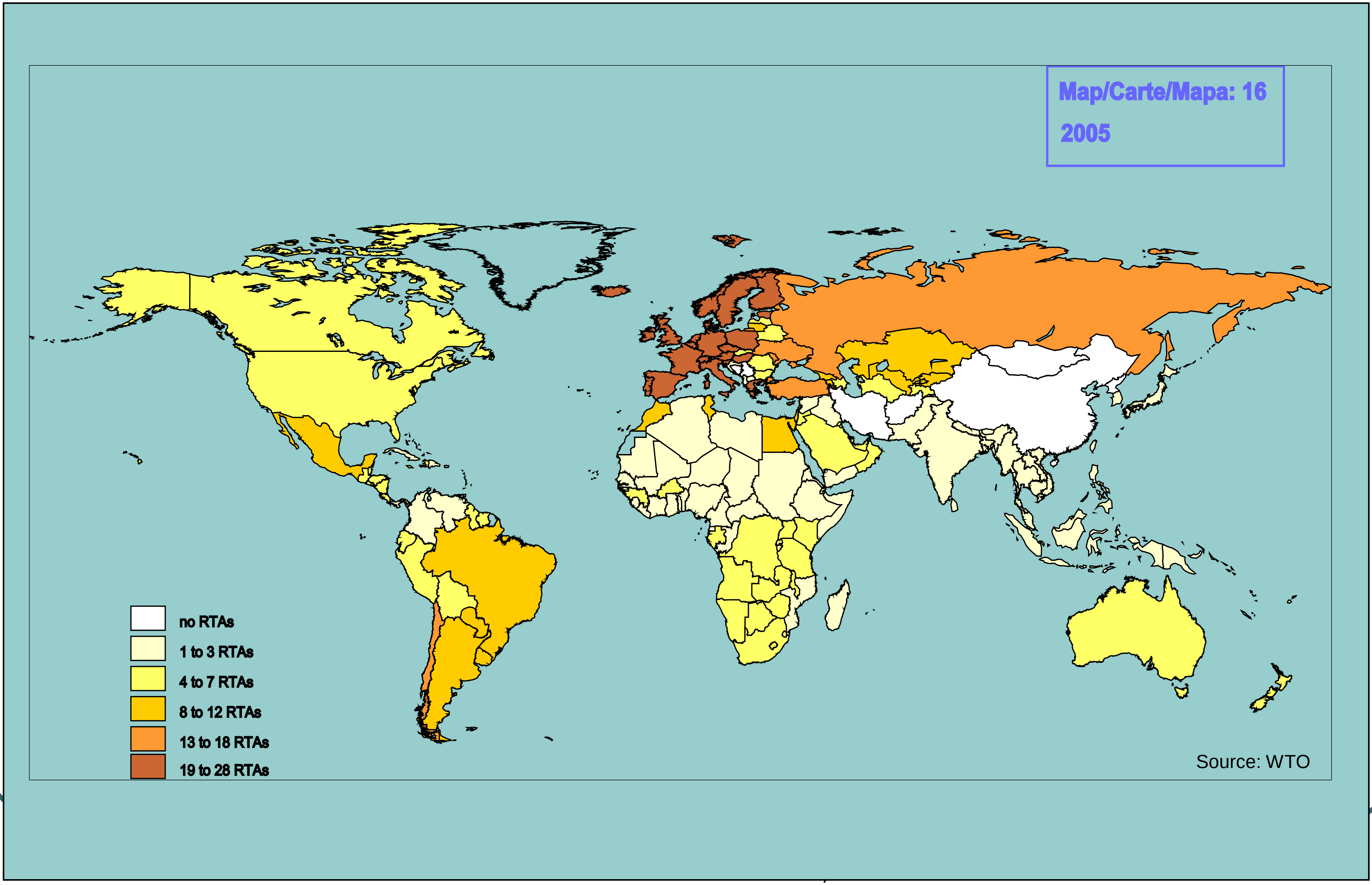


Source: Robinson and Diaz Bonilla 2004.

Opportunities and Constraints for Eurasian Trade Integration

- Trade policies
  - WTO membership (China 2001, big CIS countries expected soon)
  - Regional/bilateral agreements prevalent, but a mixed blessing (poorly designed, implemented "spaghetti bowls")

Regional Trade Agreements: Global



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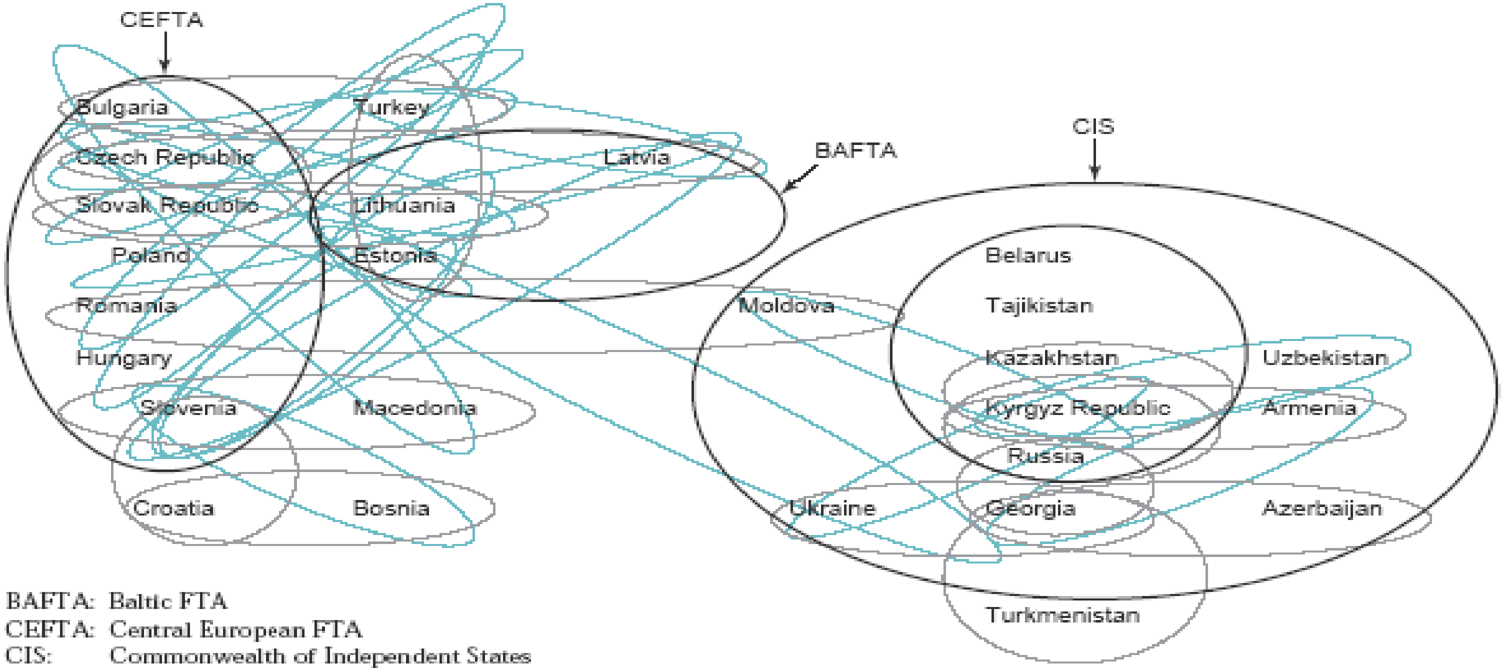
ECA Spaghetti Bowel (GEP2005)

Figure 2.2 (continued)

c. In Eastern Europe and Central Asia, bilateral agreements burden customs officials*



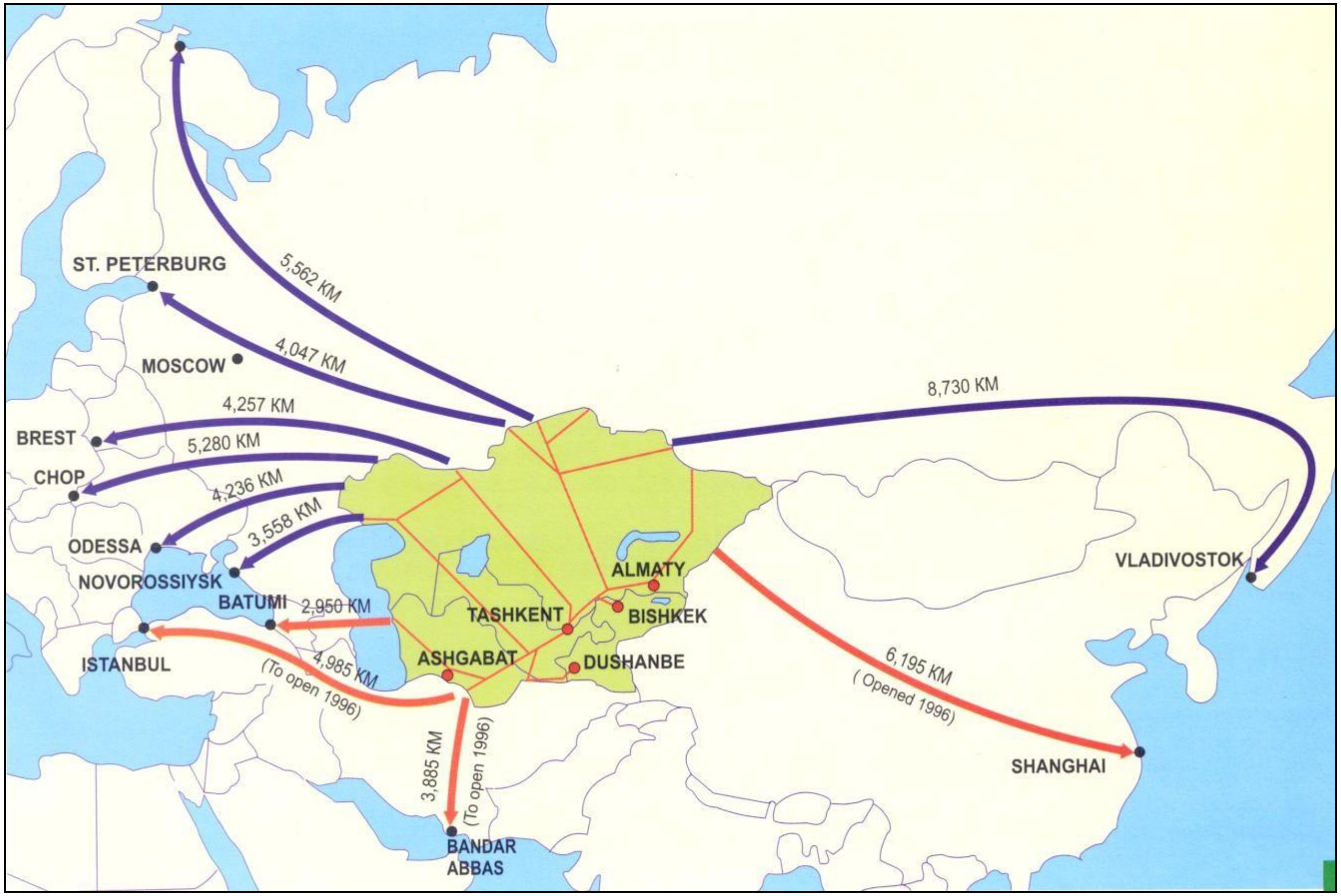
BAFTA: Baltic FTA
CEFTA: Central European FTA
CIS: Commonwealth of Independent States
* Prior to EU expansion.

Source: World Bank staff.

Opportunities and Constraints for Eurasian Trade Integration

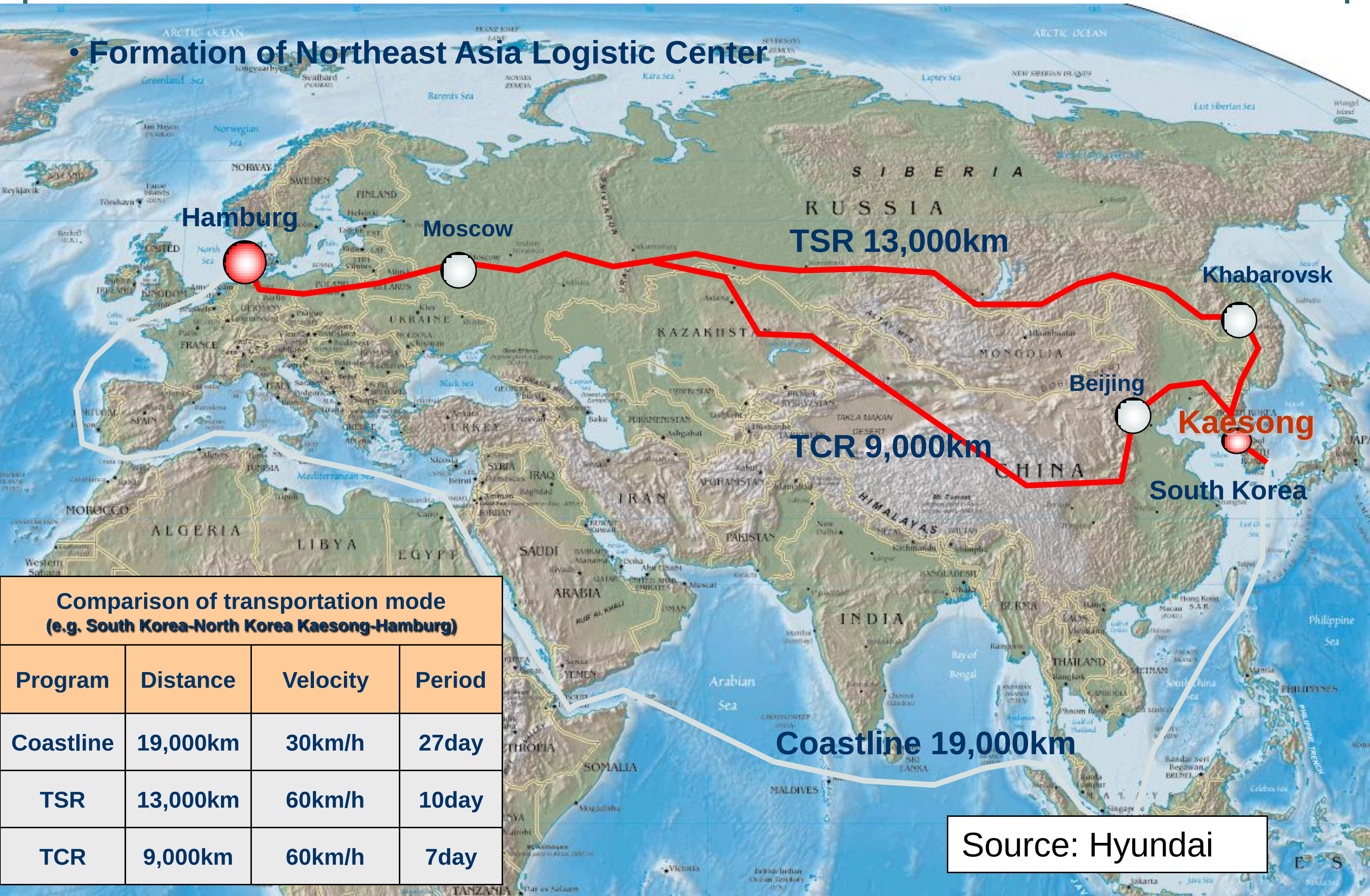
- Trade policies
  - WTO membership (China 2001, big CIS countries expected soon)
  - Regional/bilateral agreements prevalent, but a mixed blessing (poorly designed, implemented “spaghetti bowls”)
- Transport (esp. important for landlocked areas of CIS)
  - Important investments in rail and road transport links needed, and some underway (e.g., TEN, TRACECA from Europe, ADB-CAREC from East, Kazakhstan-China rail)
  - Expected/needed expansion in air transport intensity (e.g., four-fold increase in flights Europe-China by 2020)
- Transit facilitation (again esp. for CIS)
  - Significant costs from weak and corrupt institutions
  - Security
- Behind-the-border improvements

Great distances to Port from Landlocked CIS Regions



Connecting TSR/TCR with Trans-Korea Railroad

• **Formation of Northeast Asia Logistic Center**



Comparison of transportation mode (e.g. South Korea-North Korea Kaesong-Hamburg)			
Program	**Distance**	**Velocity**	**Period**
Coastline	19,000km	30km/h	27day
TSR	13,000km	60km/h	10day
TCR	9,000km	60km/h	7day

Source: Hyundai

Non-energy Trade Integration: Conclusions

- Eurasian trade integration is happening, with significant amount and growth of trade already
- With improved trade policy, transport investments, transit facilitation and behind-the-border reforms much more trade integration can take place
- CIS region (plus Afghanistan, Iran and Pakistan/India border) still a major bottleneck, although improving, compared to 10 years ago

C. Trade in Illicit Drugs

- Illicit drug flows in Eurasia and Americas of continental scale, but quite separate and different (opiates v. cocaine)
- 75% of world's IDUs in Eurasia (10m)
- Eurasia supply hubs in Afghanistan and Golden Triangle
- Demand hubs are Western Europe and rapidly growing Russia/China
- Much trafficking through Central Asia with corrosive effects
- Need for better demand and supply control critical; otherwise trafficking will continue.

Drug Flows

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Drug Flows

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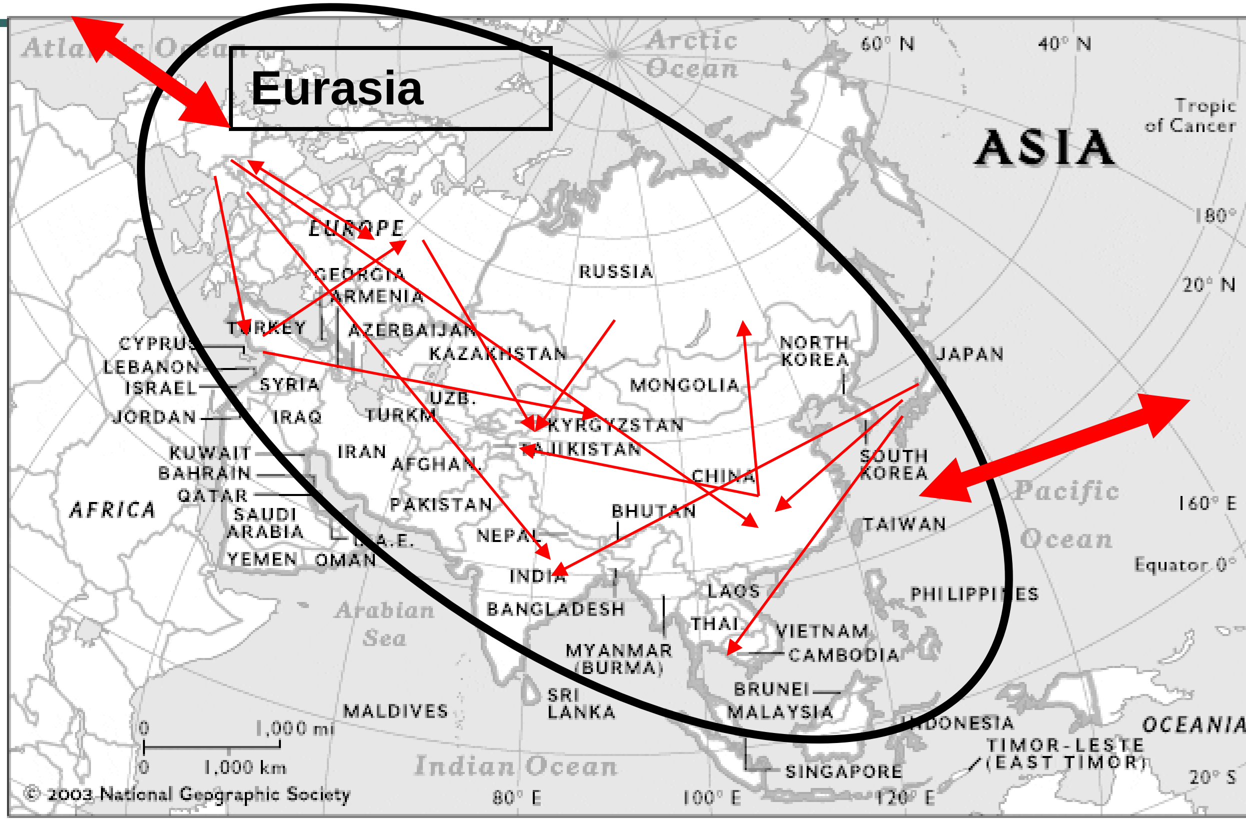
D. Investment and Capital Flows

- Eurasian capital market integration limited, but important actual/potential links
  - Contagion effects of Asian/Russia crisis
  - Russia capital flight (via Cyprus, Switzerland)
  - Potential shift of reserve holders in Asia/Russia to the Euro
- Eurasian FDI flows still limited, but growing (EU → China/Russia, Japan →SEAsia/Europe, Russia → CIS, Turkey → CIS, China/India → Russia/Central Asia energy, etc.)
- Continued capital market integration possible, esp. as closely linked to trade integration

Capital Flows



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Capital Flows

E. Migration Flows

- Limited data on transcontinental migration
- Mostly from East to West for now, and limited (except for selected CIS countries)
- Migration within countries (China, Russia)
- Potential for future increases, given great differences in demographic dynamics and very large real income differentials
- Barriers likely to remain in place, esp. in Europe; offsetting capital movements and outsourcing may be the inevitable consequence

Migration Flows

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Migration Flows

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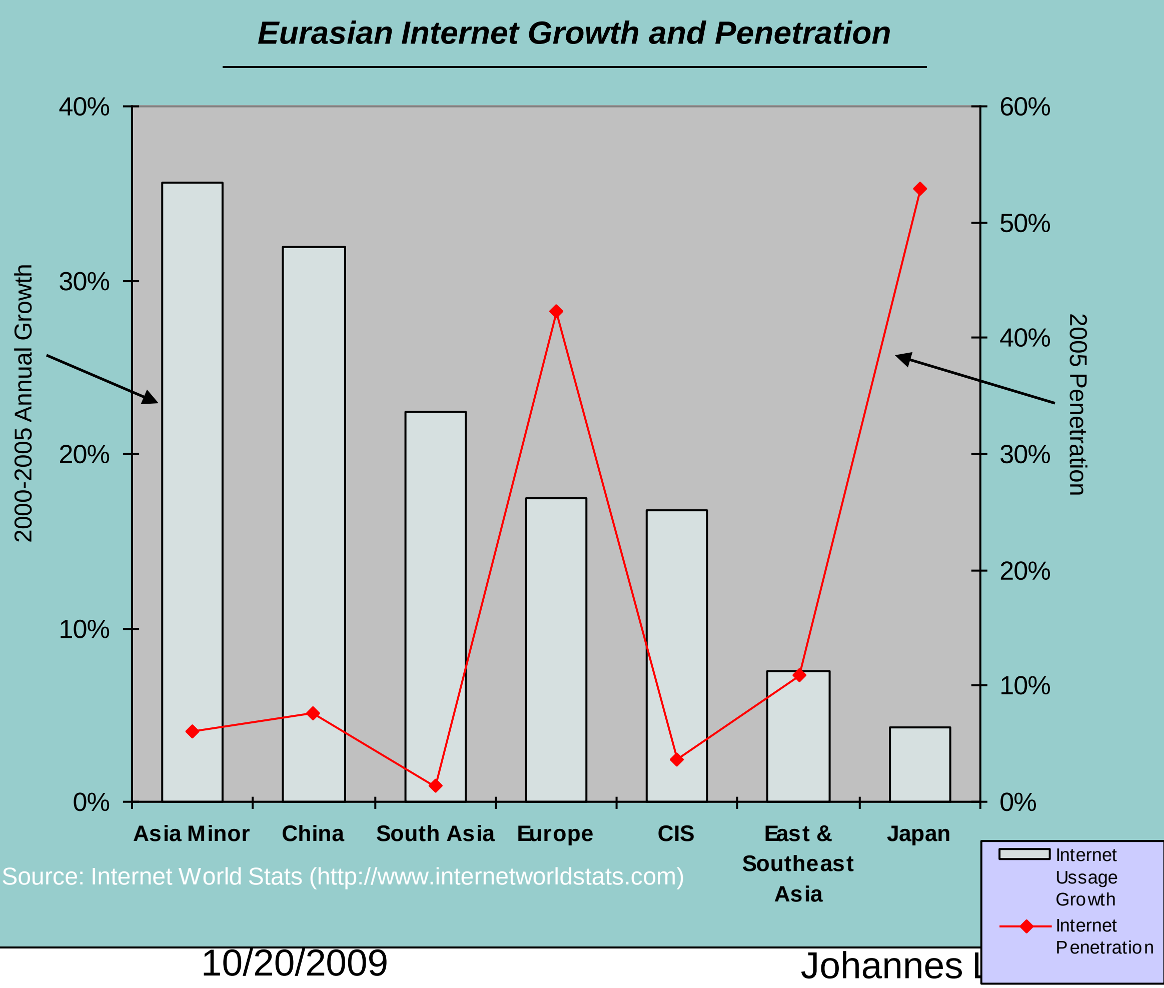
F. Communication and Knowledge

- Eurasia is quickly becoming interconnected, regionally and world-wide, in terms of communication and knowledge, e.g.:
  - Improved access to communication satellites, telephony and internet (NATO “Virtual Silk Highway”)
  - Distance learning institutions and facilities (e.g., WB GDLN facilities)
  - Research and other institutional networks are expanding rapidly
- This cuts the effective cost of distance and will support other areas of integration

Eurasian Internet Growth (By Region)



Source: Internet World Stats (http://www.internetworldstats.com)

- Developing Eurasian countries have seen huge Internet growth and penetration rates remain low
- 10-15 countries have been identified to growth fastest during this decade

3. Development of Institutional Infrastructure for Regional Cooperation

- No overarching regional integration framework currently exists, but
- Sub-regional cooperation and integration initiatives are expanding
  - EU expanding + Neighborhood Policy
  - CIS regional organizations
  - China active in regional organizations (e.g., SCO, CAREC)
  - ASEAN+, SAARC, ECO
  - ASEM (EU+ASEAN+CHINA+Japan+S.Korea)
- Except EU, limited operational usefulness to date, but potential for trust building, stepping stones for future regional institution building

4. Key questions for future integration of Eurasia

- What are the opportunities, gains from further integration? (More research needed)
- Will gains from economic integration drive political cooperation, or
- Will economic integration be harmed by political obstacles, competition and conflicts?
  - India/Pakistan, Russia/China, China/India
  - North-East Asia (China/Japan, N/S Korea)
  - Central Asia
  - Caucasus
  - EU neo-isolationism (no further expansion – esp. Turkey, Ukraine, etc. –, no immigration)
- How can the institutions for regional cooperation best be strengthened?

5. Tentative Policy Implications

- Energy sector currently center stage; but other areas matter also – trade, drugs, investment, migration, communication (plus others, e.g., tourism))
- Universal WTO membership will help Eurasian trade integration, but improved transport, transit facilitation and behind-the-border reforms will play a big role for increased transcontinental integration (esp. for CIS)
- Focus on Central Asia, South Caucasus, Afghanistan, Iran, Kashmir is key, as important actual or potential transit corridors face serious risks of political instability and conflict
- EU policy/leadership plays a critical role in the near term; the quartet (EU/RU/CH/IN) in the long term; role of US can be limited for Eurasian integration, if key regional actors meet the challenges of cooperation

6. Some Possible Implications for Turkey

- Turkey is an important commercial actor in Eurasia and bridge to Middle East
- Turkey has a major political and economic stake in integration of Eurasia (not only Central Asia)
  - Energy, trade, contracts, investment
- Opportunities for engagement
  - Commercial investments, contracts
  - Support/urge IFIs/OECD to be engaged
  - Explore options for effective regional organizations (ECO?)
- Specific programs
  - Energy, infrastructure, knowledge networking

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