

tepaav

Economic Policy Research Foundation of Turkey

Challenges in regional integration How to integrate more?

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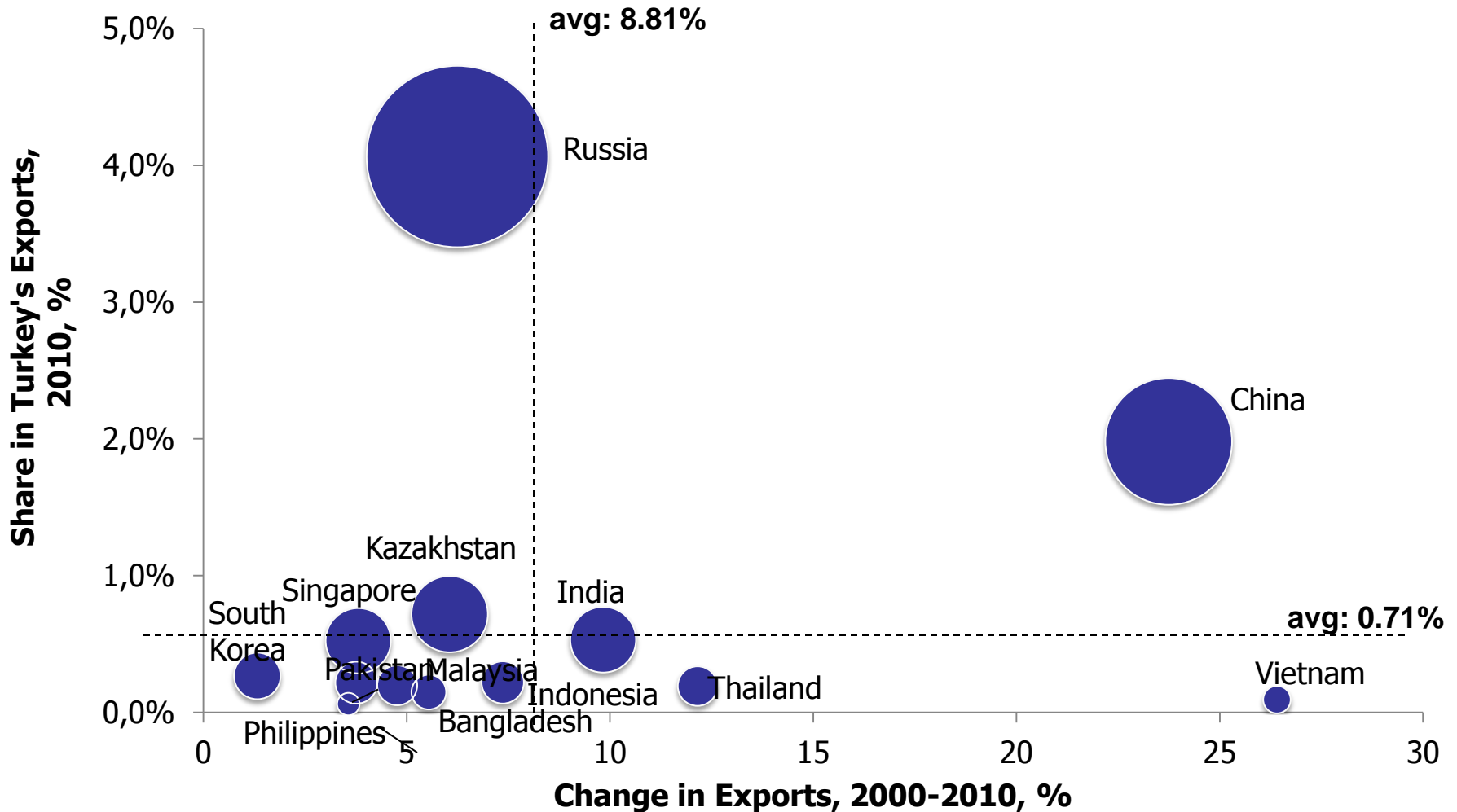
Outline

- Crisis recovery performance and different regional dynamics
- Different modes of integration
 - Three examples: US, EU, and the ASEAN
- Increasing connectivity for fostering intra-regional trade and convergence
 - Geography is important
 - Physical connectivity is a plus

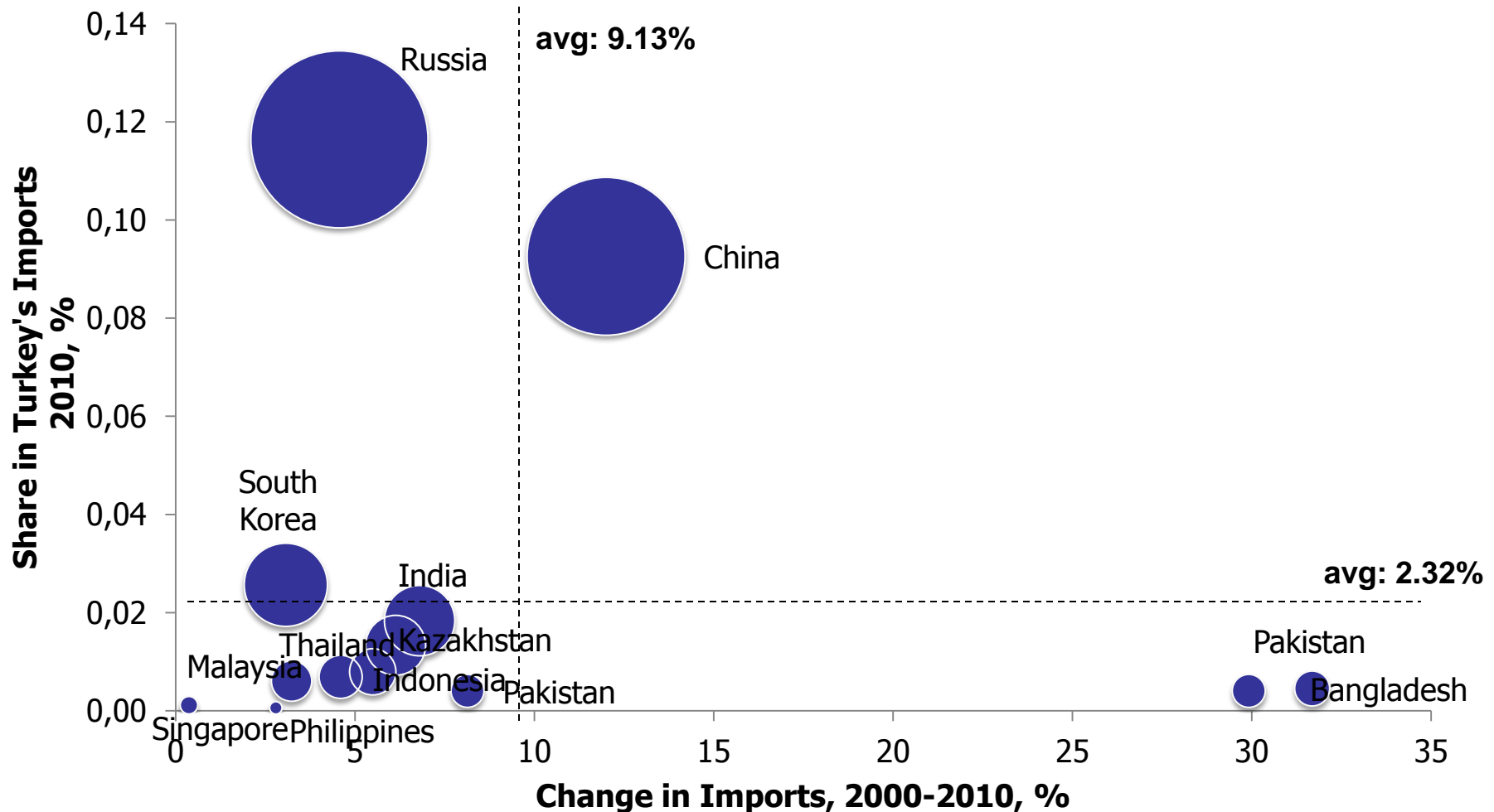
2012: A year of Uncertainty

- The extent of slowdown in Asia?
- The end of the European crisis?
- No more excess liquidity?
- How Syria unfolds?
- What happens in Iran and oil prices?
- How is external imbalance to be carried?

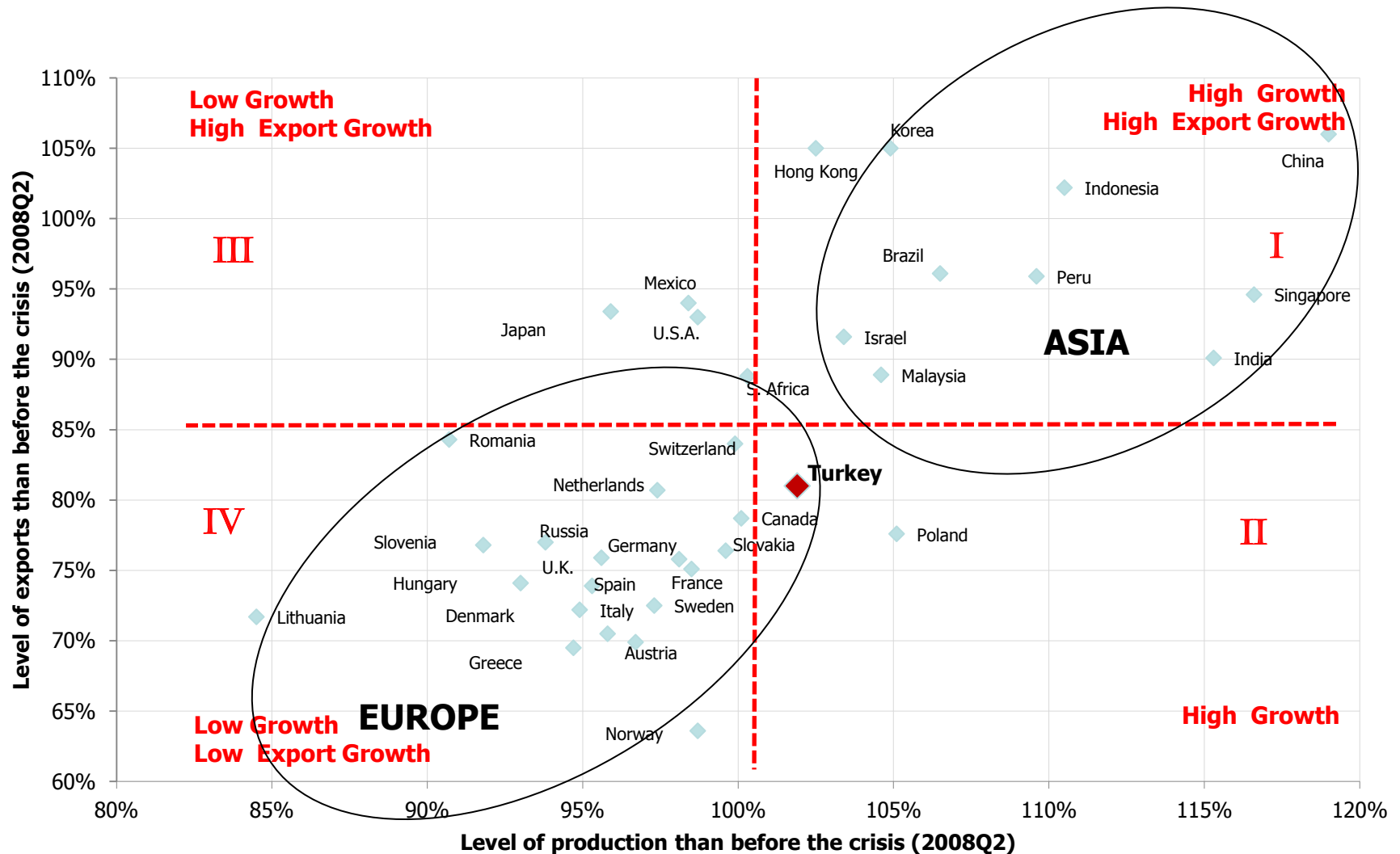
Turkey's main export partners in Asia



Turkey's main import partners in Asia



Recent divergence at the two edges of Eurasia



Sources: TEPAV calculations, WTO, Eurostat, EIU, BEA, Statistics Canada, Bank of Israel, Banco de Brasil, tradingeconomics.com

EU countries are similar in income, while Asia differ

Real GDP per capita of Eurozone

Luxembourg	76,980
Netherlands	49,030
Finland	47,570
Austria	47,030
Belgium	45,840
Germany	43,070
France	42,370
Ireland	41,820
Italy	35,700
Spain	31,750
Cyprus	29,430
Greece	26,950
Slovenia	23,900
Portugal	21,870
Malta	19,130
Slovak Republic	16,840
Estonia	14,460

Real GDP per capita of Asian countries

Singapore	40,070
Korea, Rep.	19,890
Russian Federation	9,900
Turkey	9,890
Malaysia	7,760
Kazakhstan	7,580
China	4,270
Thailand	4,150
Indonesia	2,500
Philippines	2,060
India	1,270
Vietnam	1,160
Pakistan	1,050
Bangladesh	700

Constant USD, 2000

Deepest integration in the world: The case of the US

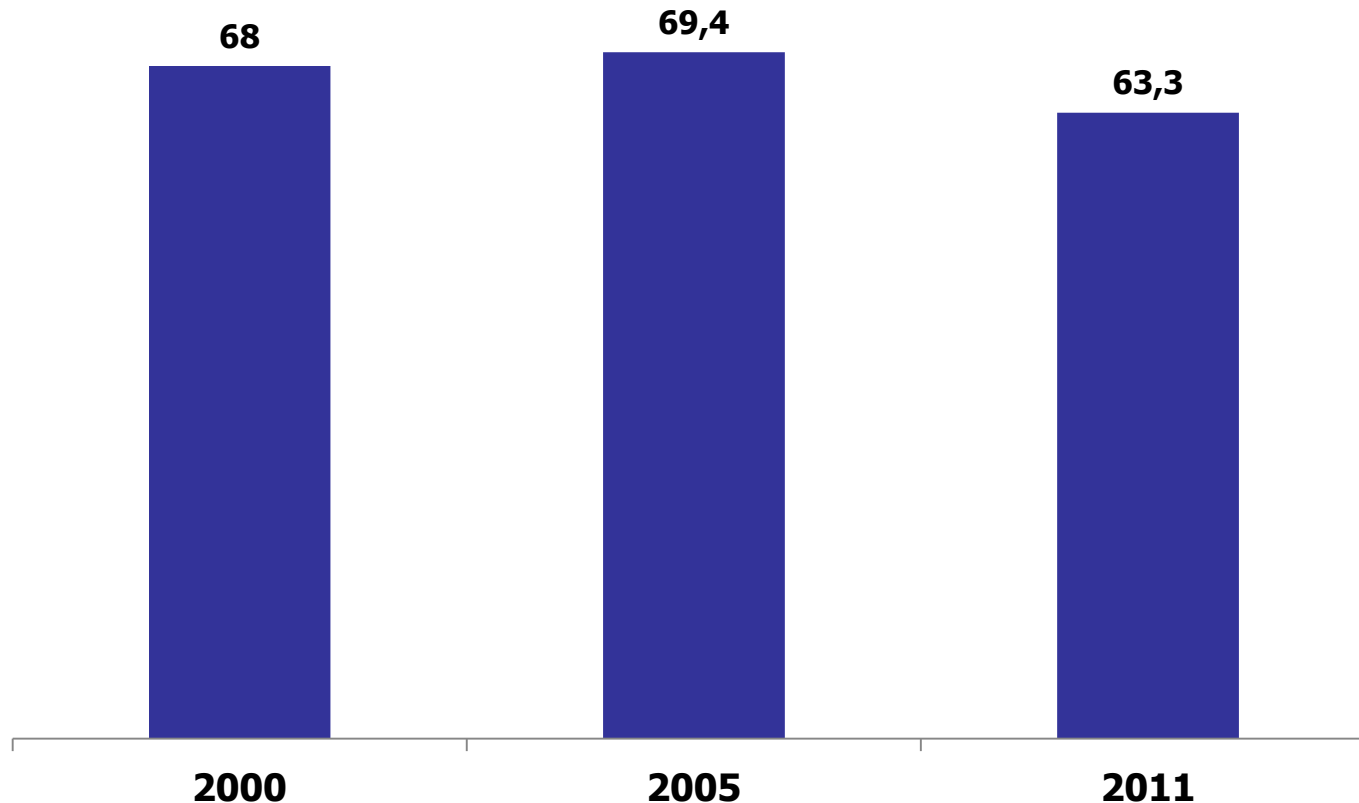
- Each state has a certain degree of independence
 - Regulatory and taxation practices differ among states
- But the US is a collection of states that are fully integrated by design
 - National constitution, national government and a federal judiciary
- Rule of the game is aligned across the country
 - Labor, goods, and capital market integration
- State borders have no practical importance

An attempt to full integration: The case of the EU

- EU is another mode of integration
 - Leading actors are nation states by design
 - Rules of the game are in Acquis Communautaire that binds member states
 - 35 chapters and 700,000 pages
- But the integration is still remarkably limited
 - National governments are very powerful
 - Independent fiscal and monetary policy
 - Political trilemma and Eurozone crisis

Intra-regional industrial supplies trade & the extent of economic integration in the EU-27

Share of manufactured inputs that are provided from EU-27 countries in EU-27's total manufactured inputs import (%)

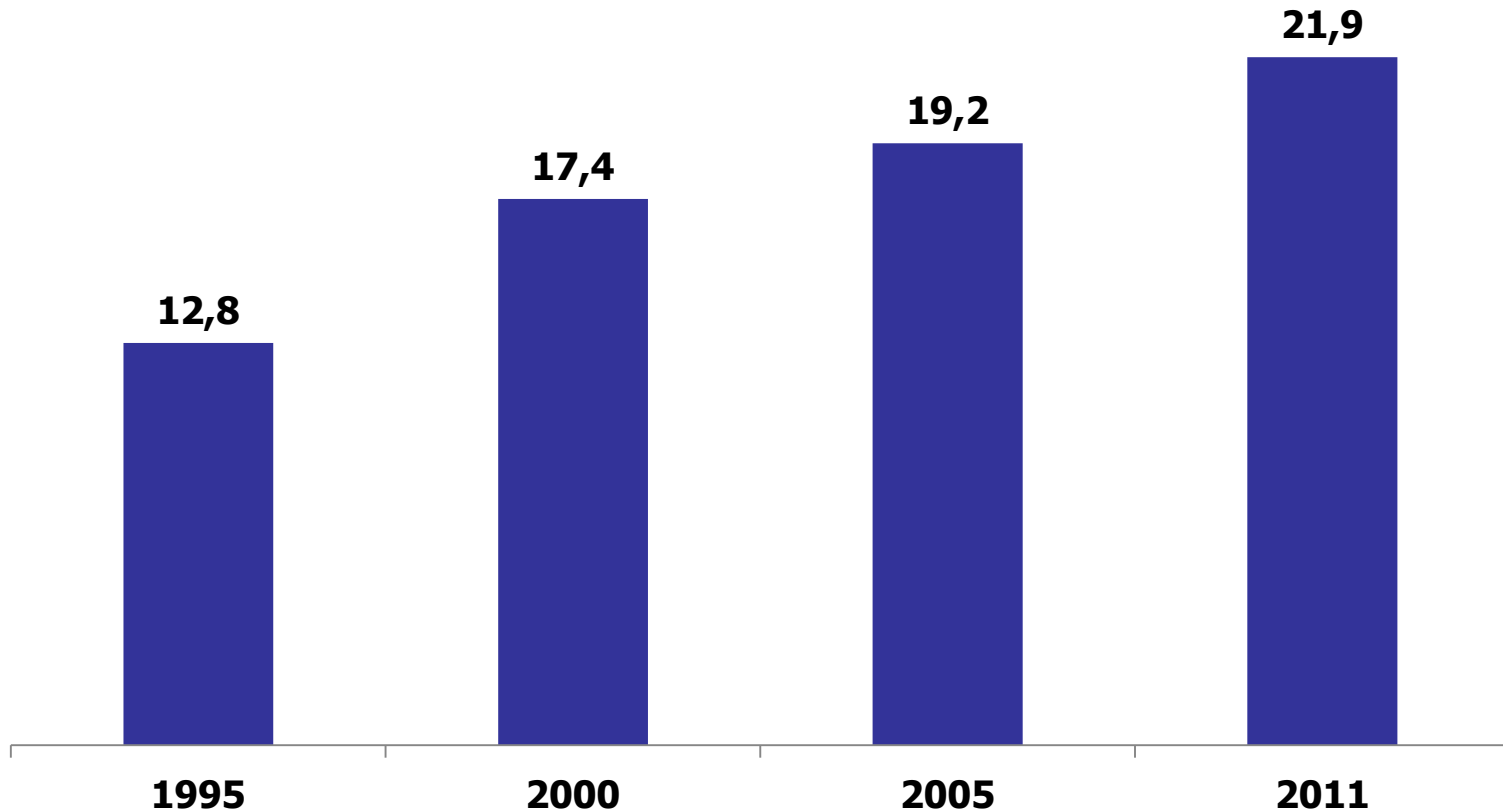


Spontaneous integration through private change agents: The case of ASEAN

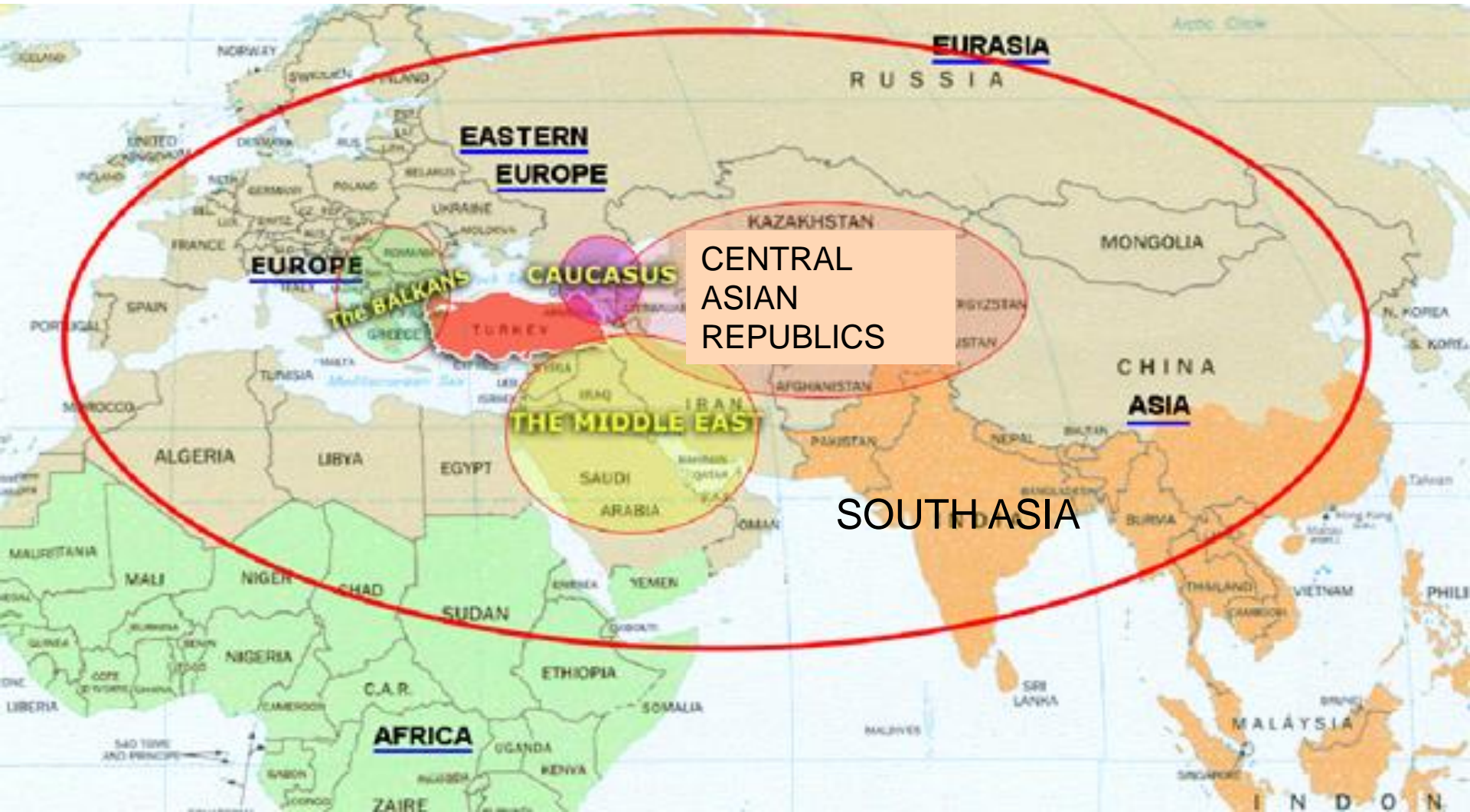
- ASEAN members are less integrated relative to the EU members and the American states
 - Lack of coordination in national policy making
- Economic integration is at the center
 - Joining a global supply chain is critical (Factory Asia)
- Market interaction is led by the private sector
 - Division of production processes among member countries
 - Coordinated industrial policy

Intra-regional industrial supplies trade increases in the ASEAN

Share of manufactured inputs that are provided from ASEAN countries in ASEAN's total manufactured inputs import (%)



Intra-regional trade is becoming increasingly more important



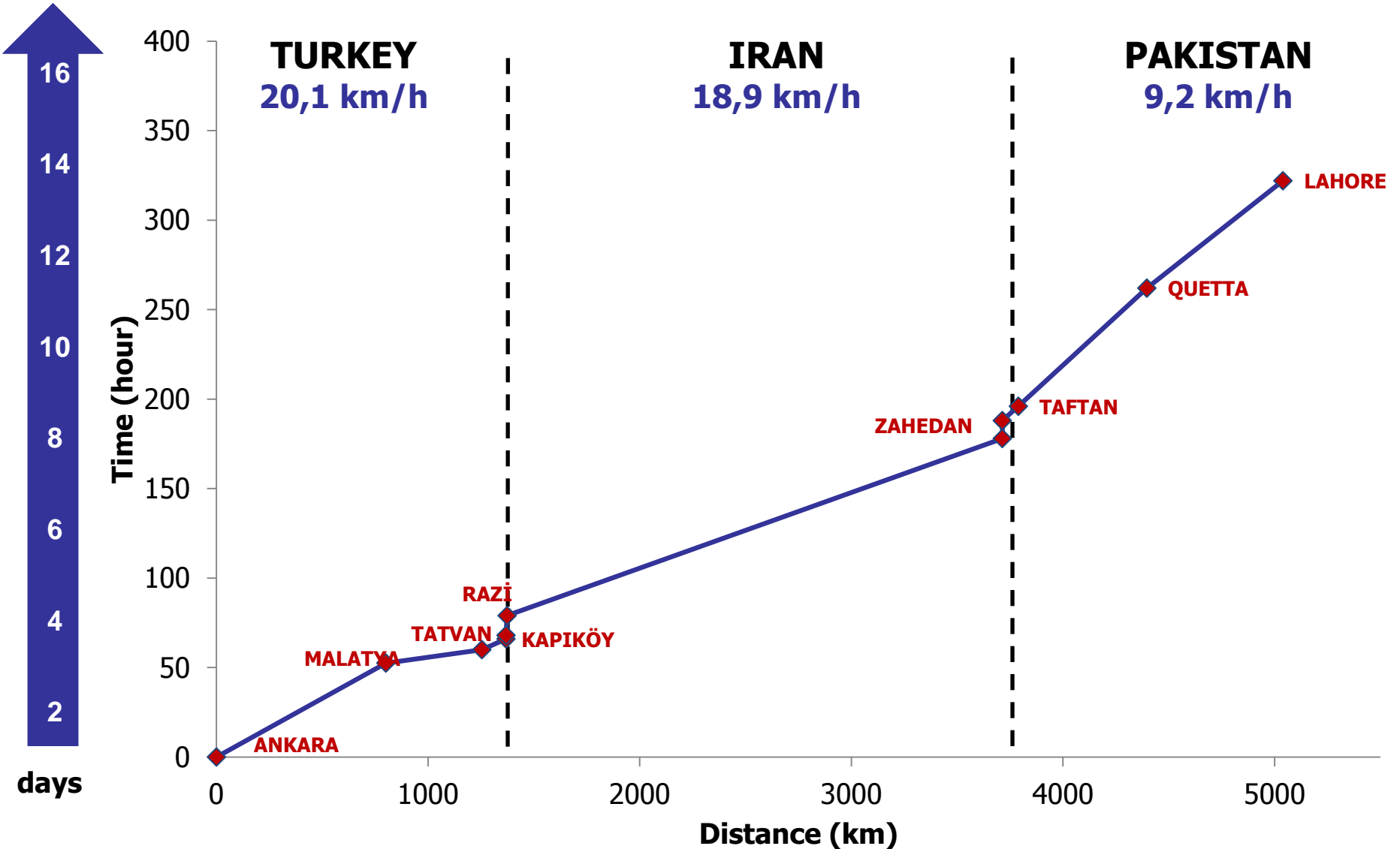
Big picture in fostering connectivity: How to grasp the potential in intra-regional trade?

- Increasing role for private-public partnerships
 - Increased connectivity is a public good for the business world
 - Larger role for the business world in design & financing of transport infrastructure
- Cross-border border cooperation in design & finance infrastructure investments
 - 'A network is only as good as its weakest link': cross-border spillovers
 - Inter-governmental cooperation on the passage for goods & vehicles
 - Cross-border cooperation in provision of finance
- Istanbul– Islamabad Railway: Is it functioning?
 - Hardware vs. software issues

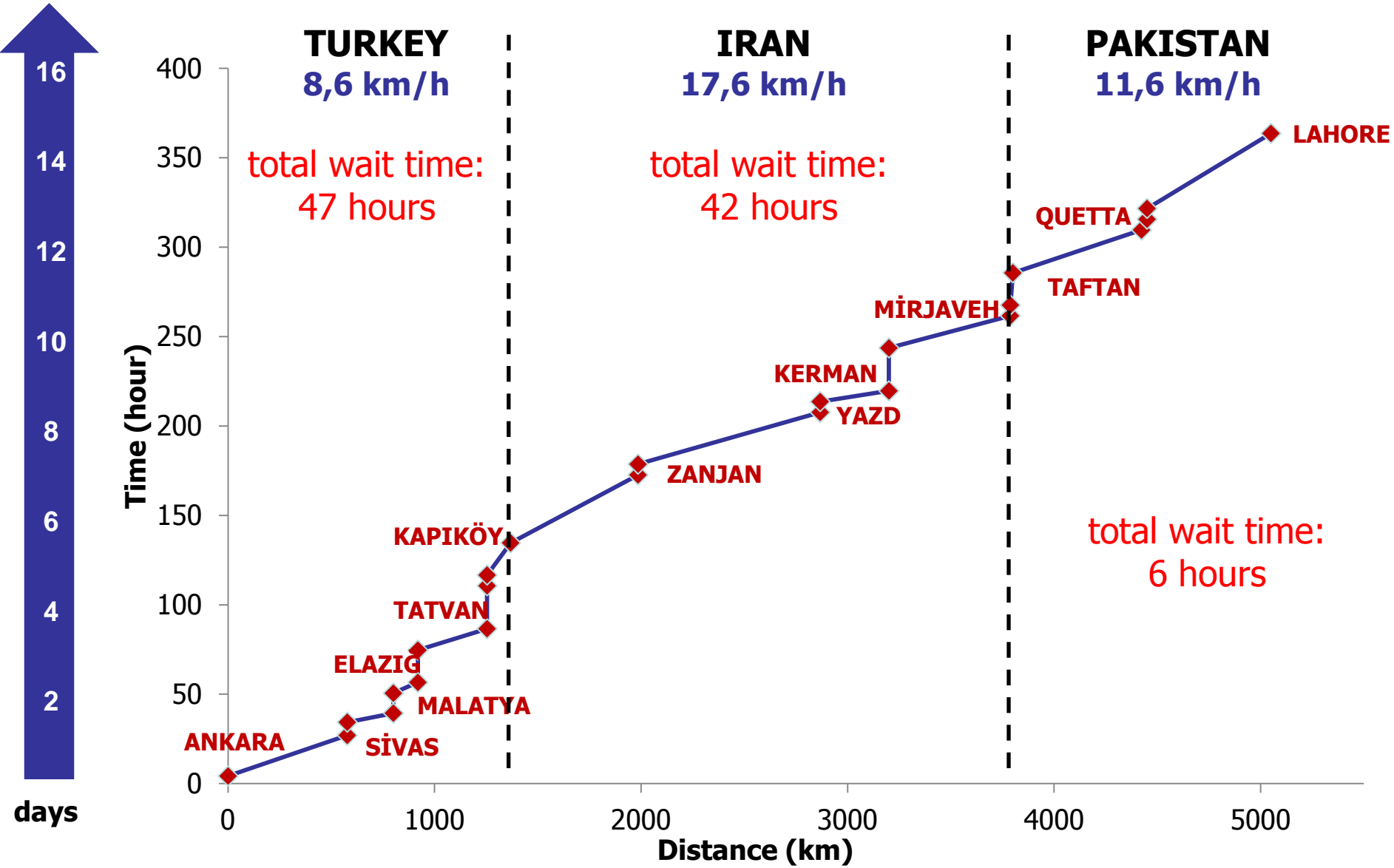
Multilateral infrastructure investments increase connectivity: Istanbul-Tehran-Islamabad Train



Time – distance analysis of the first test run (without GPS)



The second test run (with GPS); Ankara – Lahore: ~15 days



The corridor has several hardware and software problems to be fixed

■ Pakistan

→ Software problems

- “Ownership of the train” and efforts to ensure coordination made it possible to eliminate waiting at Zahedan → 15-17 days achieved
- Customs problems: Cargo waited in Lahore for two weeks due to poor customs coordination

→ Hardware problems

- Rolling stock investment is still necessary to ensure predictable service (test runs were every 4 weeks)

Problems are different in each country

■ Turkey

→ Software problems:

- Poor coordination at departure: Iran & Pakistan rolling stock waited

→ Hardware problems

- Van Lake is still a bottleneck. Iran and Pakistan rolling stock waited for the train due to unexpected ferry problem at Van
- Wait time at Tatvan (second run): 24 hours, Tatvan – Kapikoy: 48 hours

■ Iran

→ Stable performance

Conclusion

- Crisis at the center is a negative externality for all of us
 - Asia is the growth engine of the world
 - Important to watch out

- Asian integration model is different from the EU
 - Still low but deepening integration within Asia : Integration by market interaction
 - Middle east could follow the same path
 - Important for Turkey to watch out

- Promoting connectivity stated as a priority area in the survey
 - How to enhance the cargo traffic in existing roads?
 - How to open new routes?