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Economic Policy Research Foundation of Turkey

Integration is good for inclusive growth

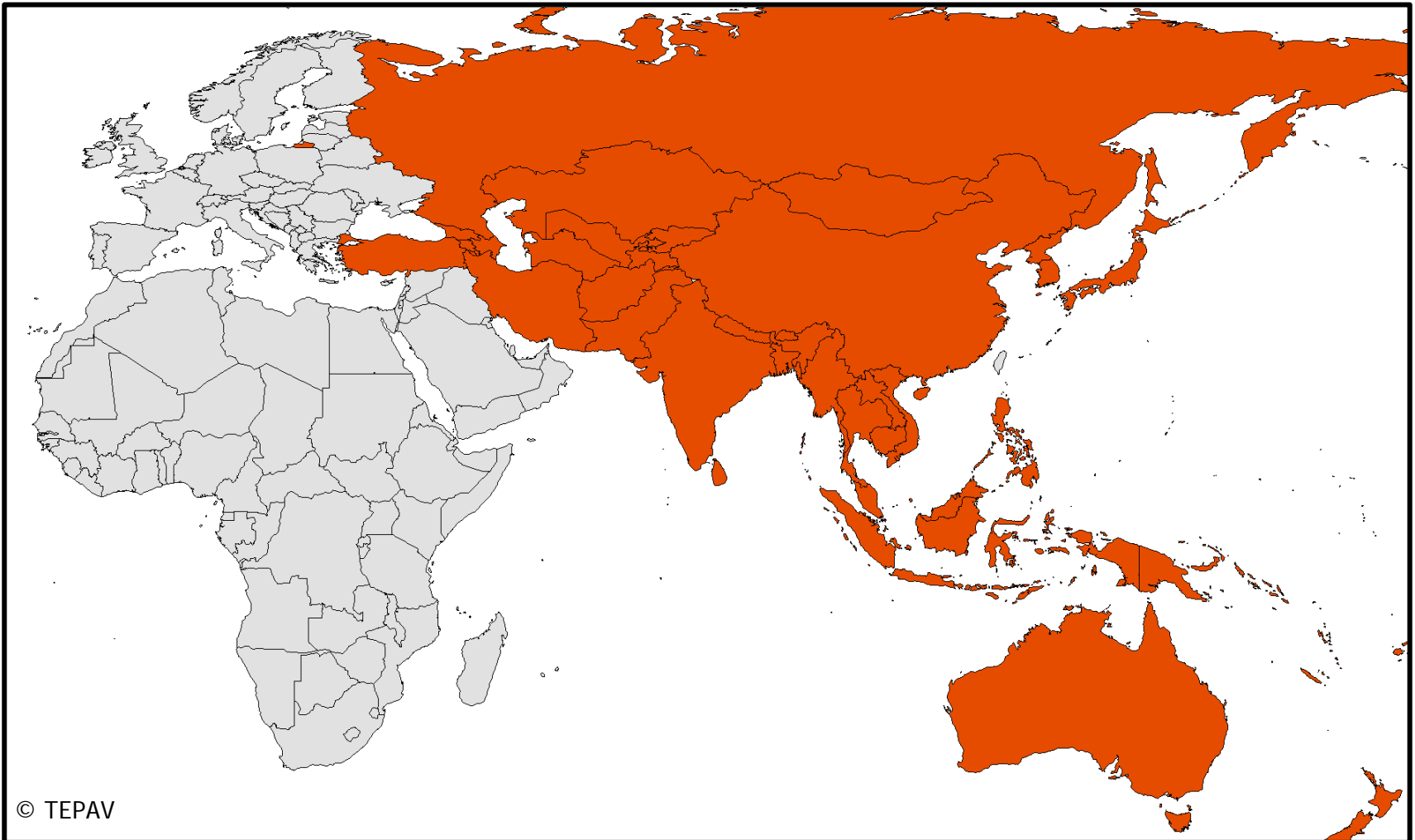
Güven Sak

Ankara, 14 May 2015

Outline

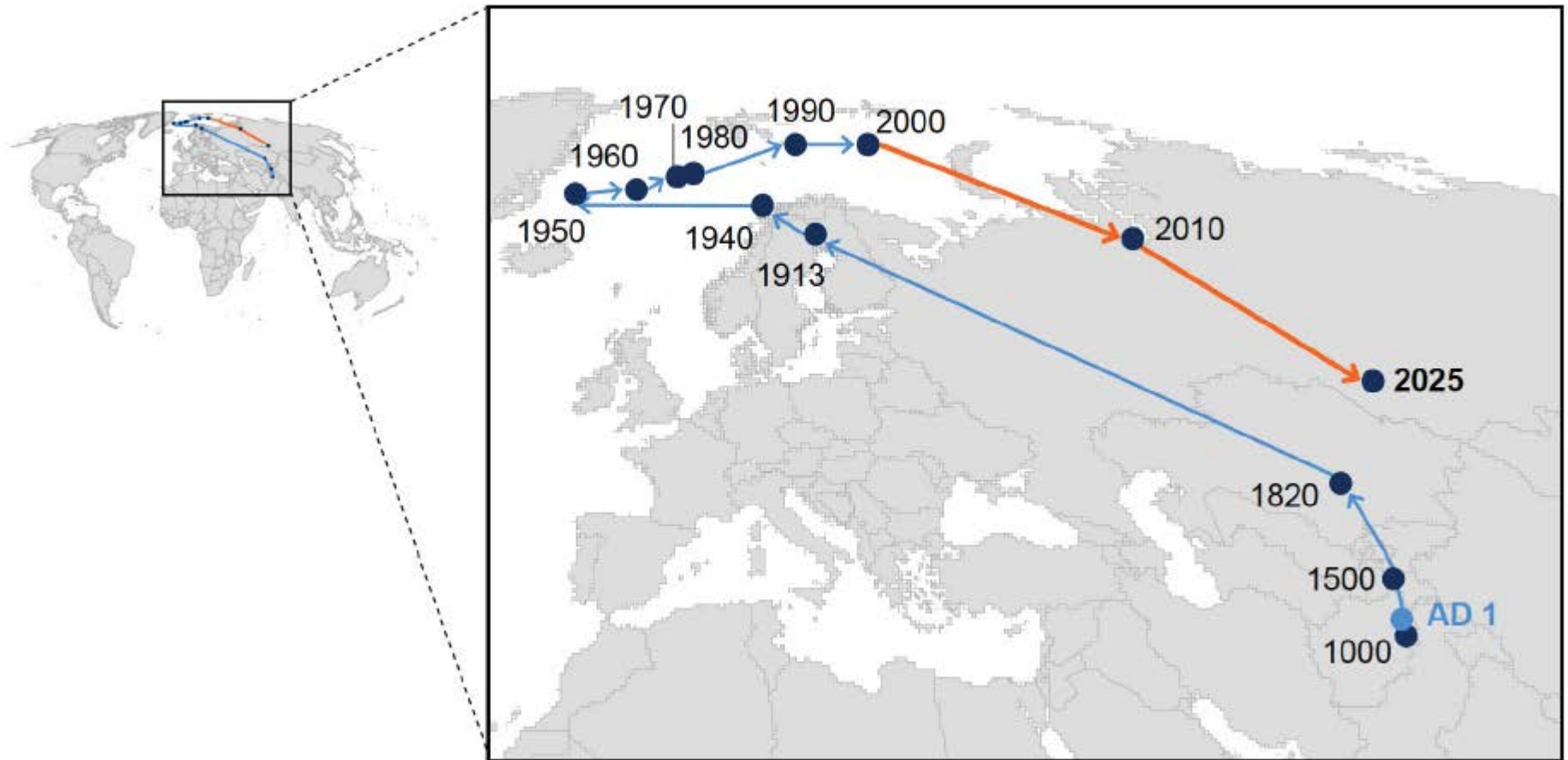
- Why is UNESCAP report a good read?
 - Turn to Asia-Pacific: Center of gravity again
 - Main takeaways of the report and a question
- What does 1 Belt, 1 way mean for Asia?
 - Facilitating regional economic integration
 - Reviving the Silk Road
 - Investments in “hardware”
 - Policy dialogue for “software”
- Some Conclusions for Turkey

The ESCAP geography



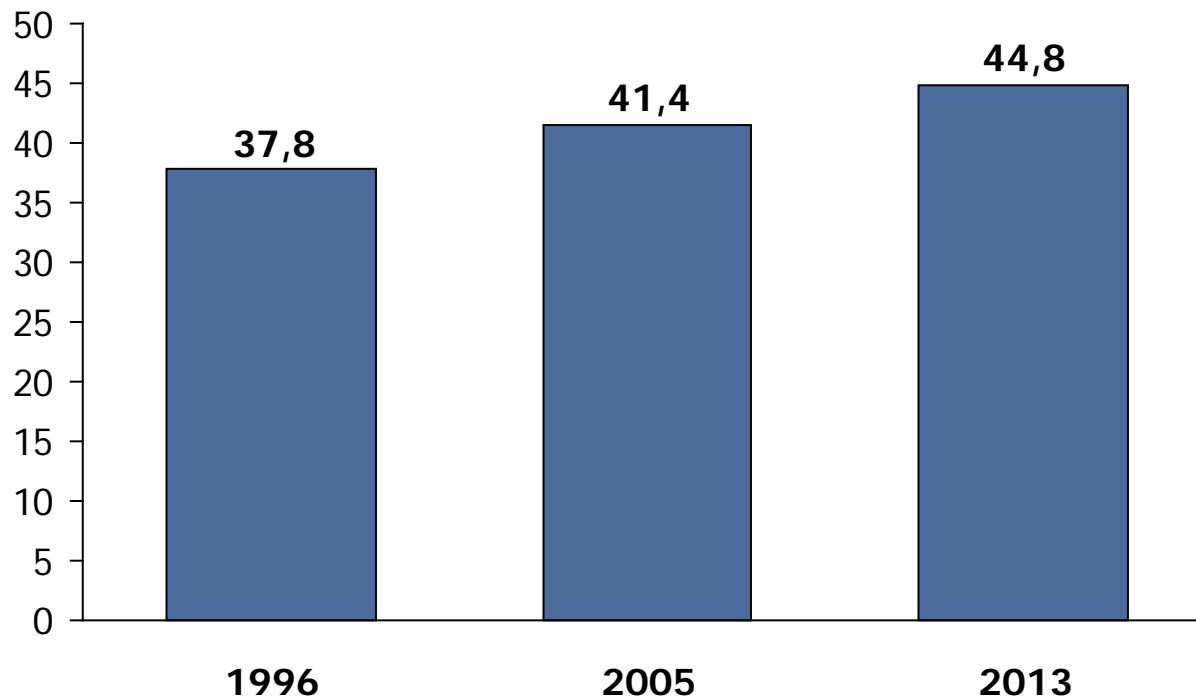
Center of gravity returning to the region

How to reap its benefits?



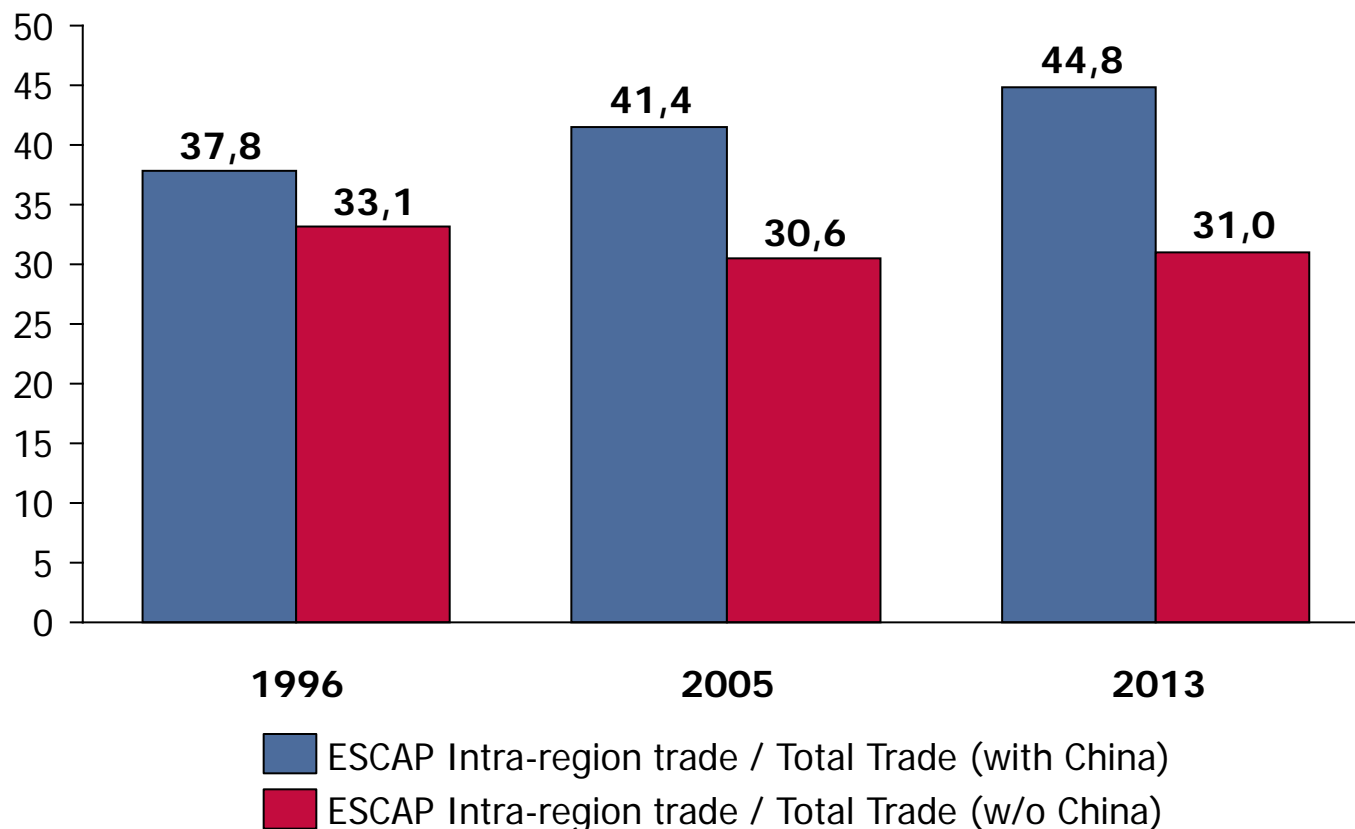
A story of successful integration?

ESCAP intra-regional trade share, %, 1996-2013



Or one of Chinese growth?

ESCAP intra-regional trade share, %, 1996-2013



Main takeaways (1)

- Slowdown in economic growth?
 - Fed tapering announcement in August 2013
 - No rate hike yet impact felt
- Chinese slowdown put in context:

	China's GDP	12% 2005	7% 2015
2005	2.3 Trillion USD	274 Billion	
2015	11.3 Trillion USD		790 Billion

- Fragile five in 2013:
 - Brazil, **India**, **Indonesia**, Turkey, South Africa (3 out of 5)
- Fragile down to 3 in 2015:
 - Brazil, Turkey, South Africa (1 out of 3)
 - Structural reforms needed? Turkey is the only non-natural resource economy now.

Volatility and current account deficit of Turkey

Growth rate, volatility, savings and CAD (1980-2014)

	Avg. Growth rate	Volatility (growth)	Avg. saving rate (% GDP)	Avg. CAD (% GDP)
1980-2014	4.20	4.32	18.7	-2.5
1980-2001	3.79	4.52	21.1	-1.0
1980-1990	4.68	3.42	21.6	-1.2
1991-2001	2.91	5.43	20.7	-0.8
2002-2014	4.90	4.04	14.7	-5.1
2002-2007	6.79	1.81	15.8	-3.8
2008-2014	3.27	4.82	13.8	-6.1

Main takeaways (2)

■ From MDG to SDG

→ Post 2015 Development agenda taking shape

→ MDG ending in 2015

- Asia-Pacific instrumental for the decline in poverty
- Poverty more localized now

→ Sustainable development goals

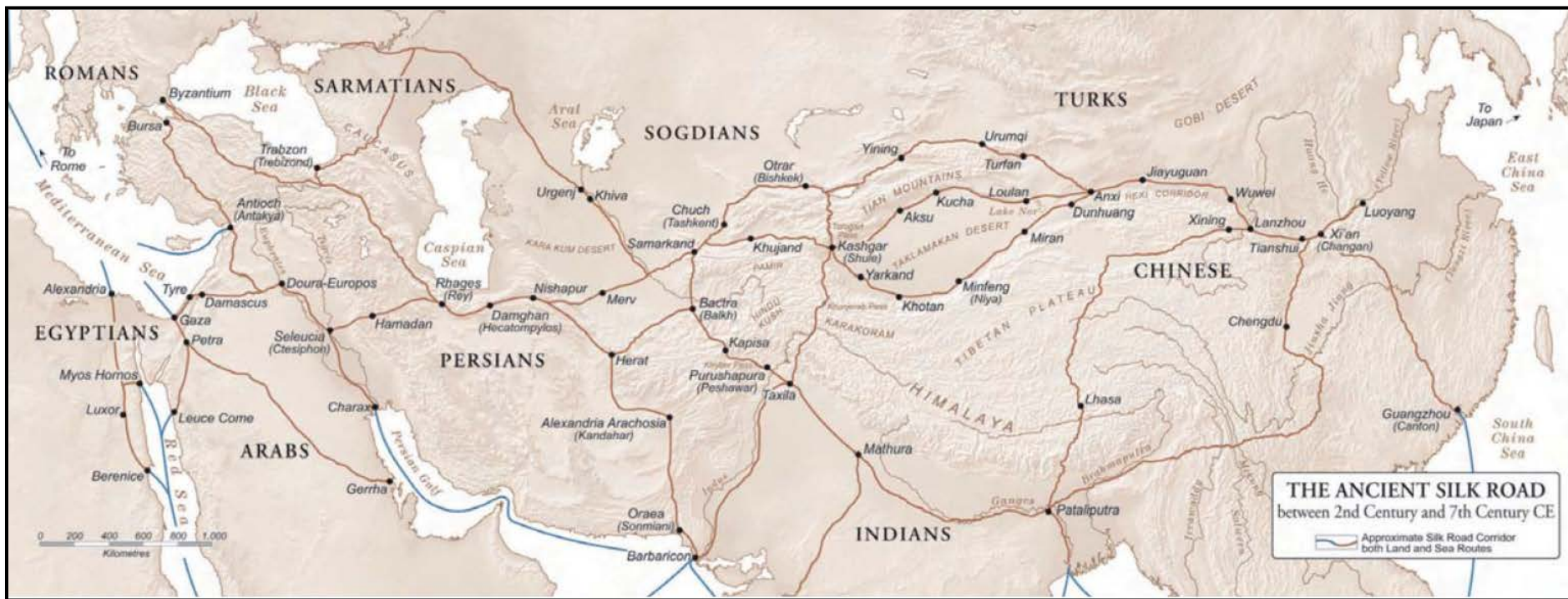
- As of March 2015-17 goals
- Addis meeting in July
- COP21 Paris in December: Climate Change Conference

Main takeaways (3)

- More active G20 role in SDGs
 - MDG 2000—active G8 role
 - G20 to become a summit in 2008 with the Western crisis
- Inclusiveness
 - ESCAP report: Making Growth More Inclusive for Sustainable Development
 - Turkish G20 Presidency:
 - Inclusiveness, Investment and Implementation
- What does inclusiveness mean
 - Caring for SMEs
 - Empowering women
 - Eradicating poverty
 - Connectivity to market for all—LIDCs
 - Infrastructure for all

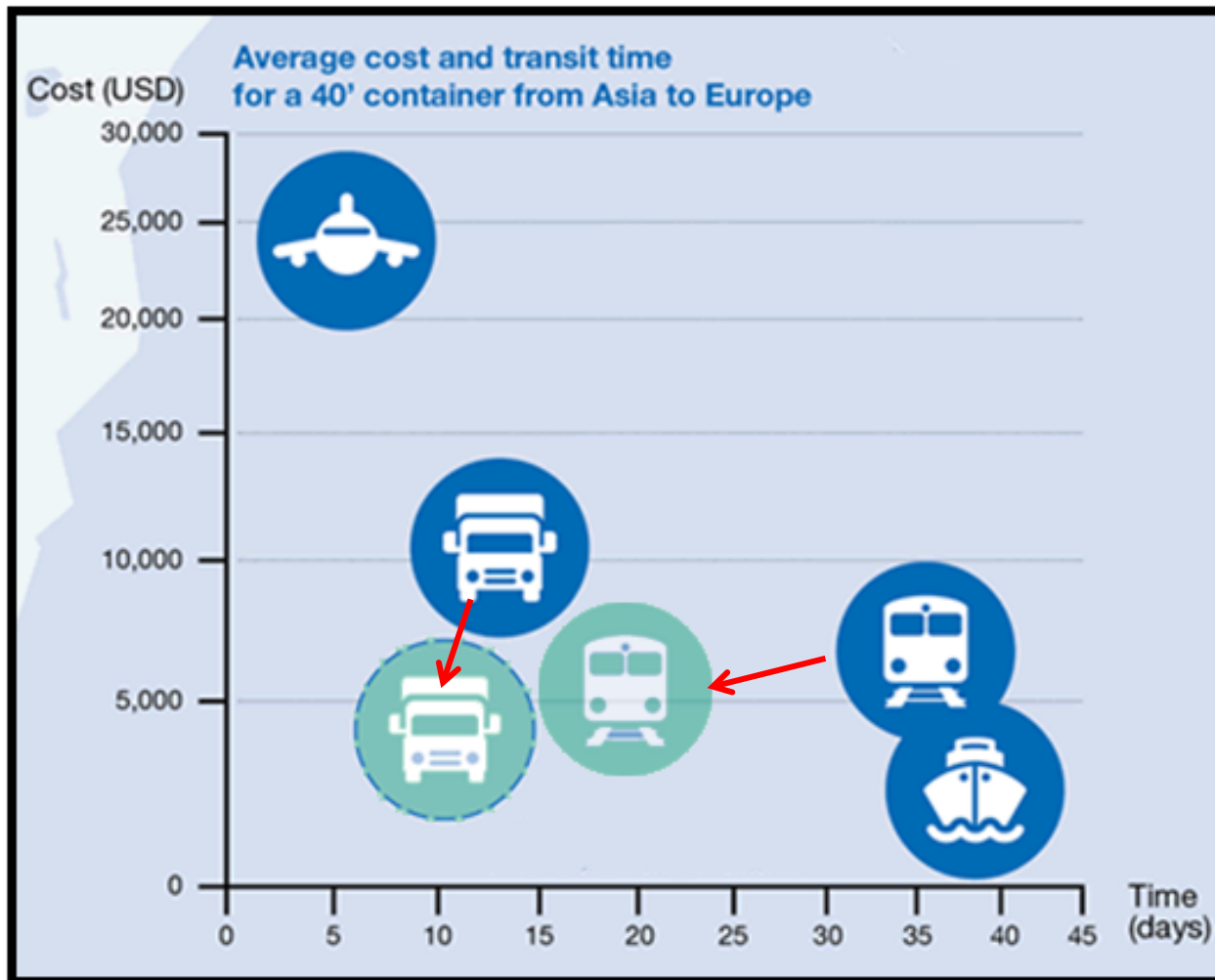
Why is 1 Belt, 1 Road important?

An Asian integration strategy



Land routes are far more optimal

The case of Europe-Asia trade



However, sea and air are dominating

62% of all EU-China trade is by sea, 23% is by air

Modes of transport for China-EU trade, (2012)

	Volume	Weight
Sea	€ 268 billion (%62)	94,3%
Air	€ 99,8 billion (%23)	1,6%
Road	€ 31 billion (%7)	3,7%
Rail	€ 1,7 billion (%0,4)	0,4%
Total	€434 billion	%100

Why?

Issues of “hardware” and “software”

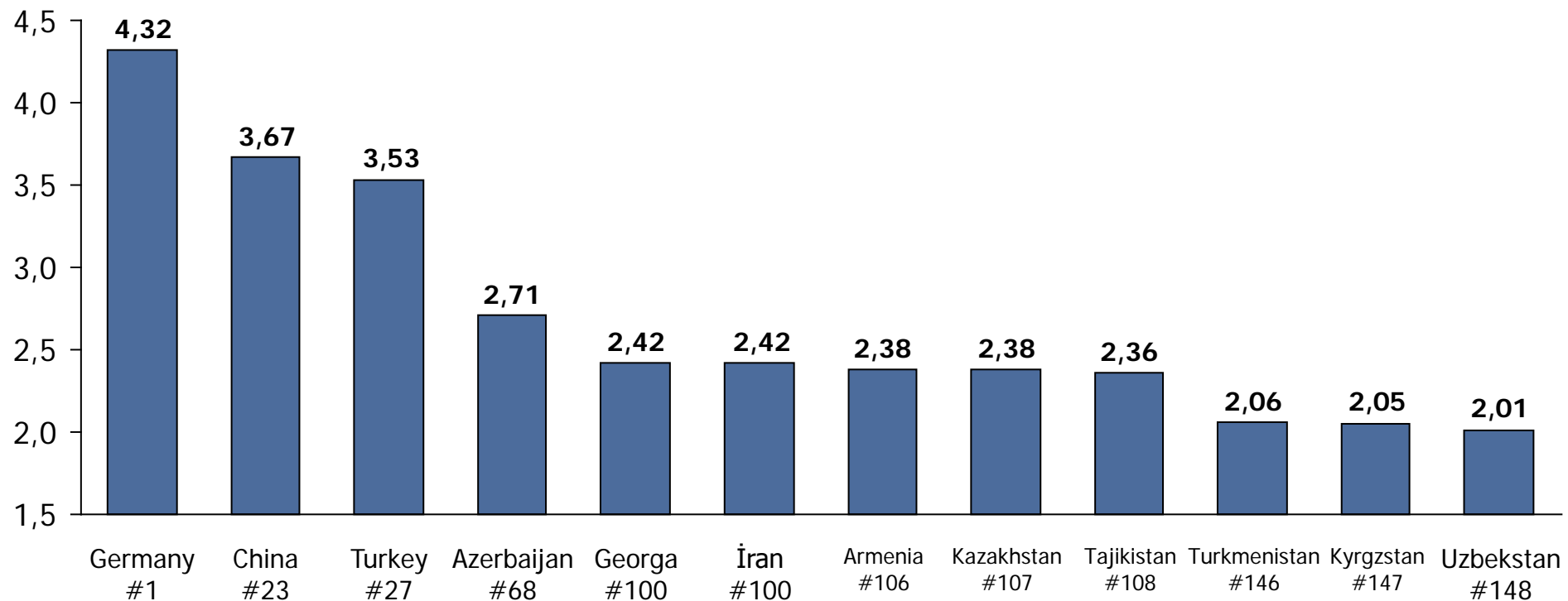
Transport time and distance across Central Asia (2010-2013)

	2010	2012	2013
Time taken to clear a border crossing <i>*Hours</i>	8,7	10,9	10
Costs incurred at a border-crossing <i>*\$</i>	186	157	235
Speed of travel <i>*500 km corridor</i>	24	23	20
Costs incurred transporting goods <i>*\$, per 500km, per 20-ton load</i>	712	999	1482

“Hardware” issues

Infrastructure connecting East to West is inadequate

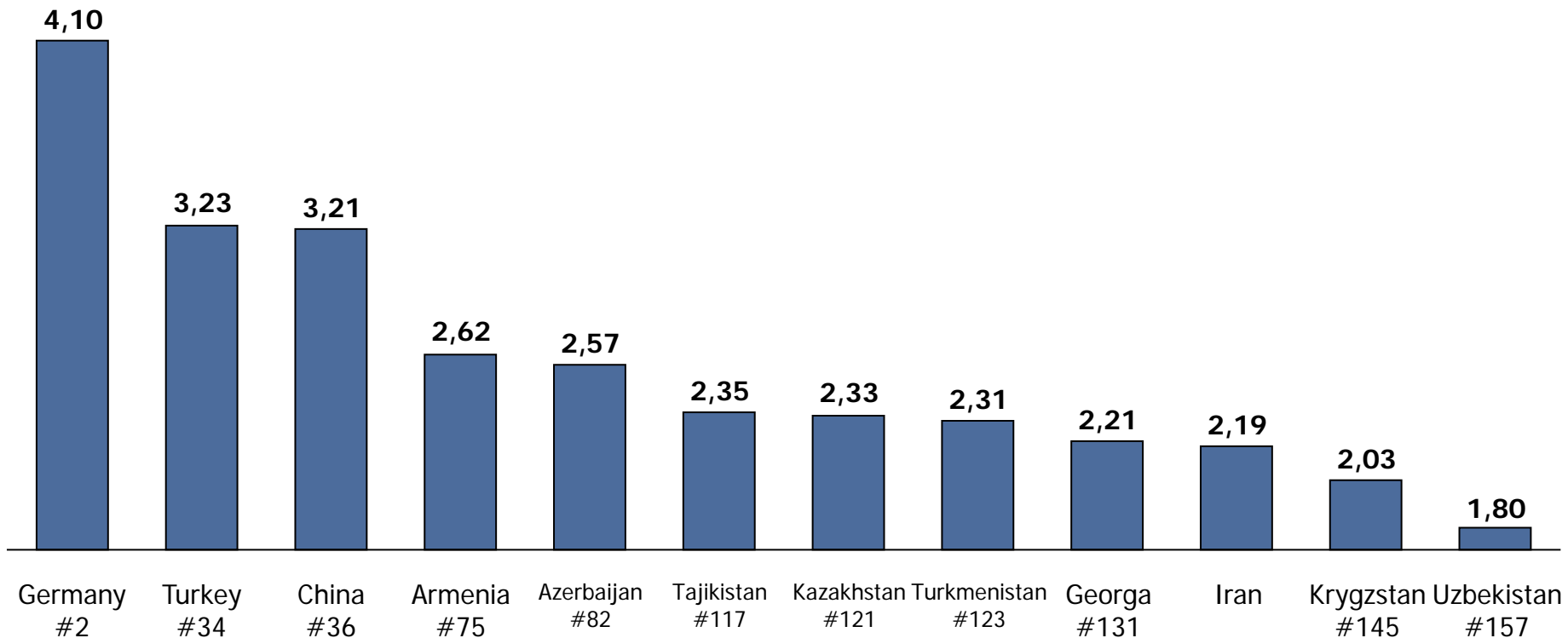
Silk Road countries' quality of trade and transport infrastructure (2014)



“Software” issues

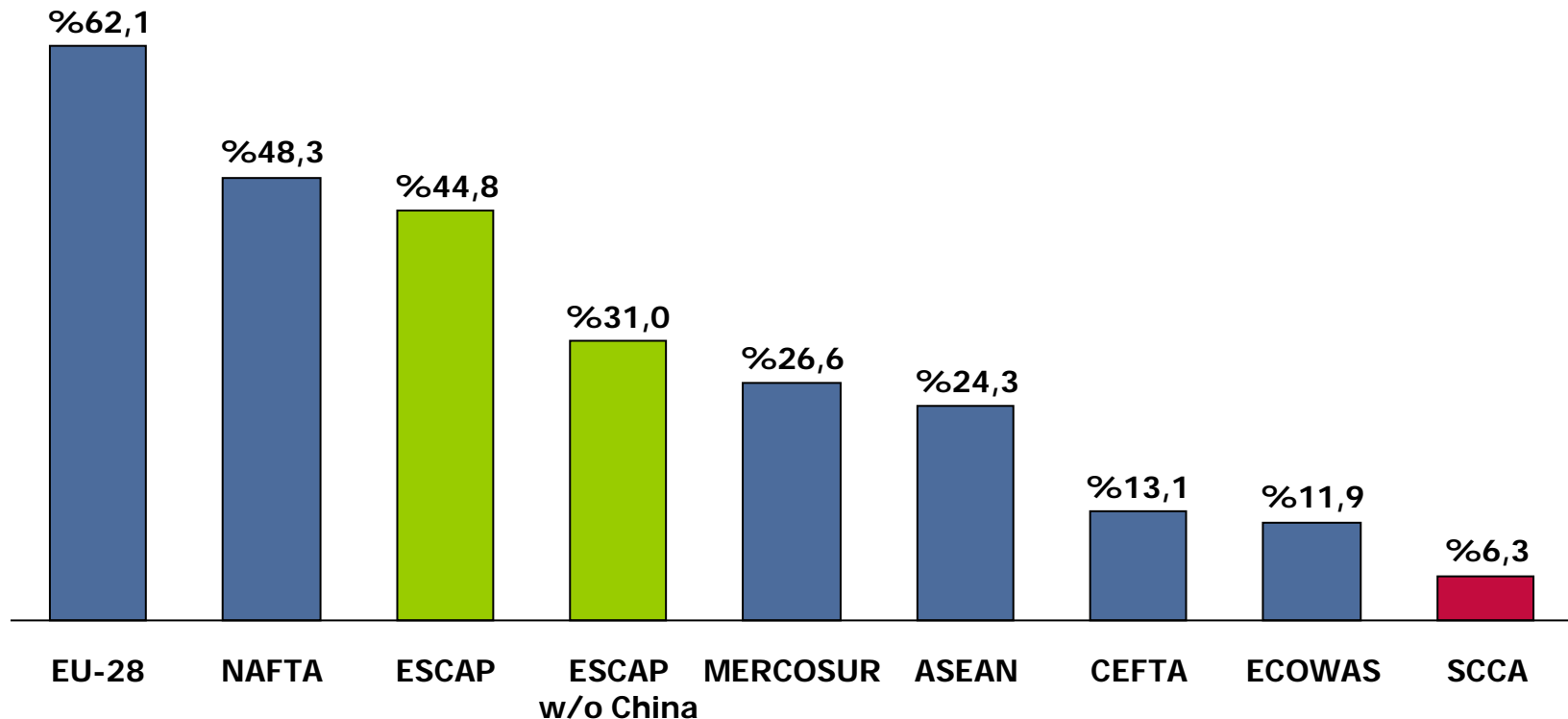
Trade facilitation through regulatory integration

Efficiency of customs and border management (2014)



Level of regional economic integration is even lower than Western Africa's

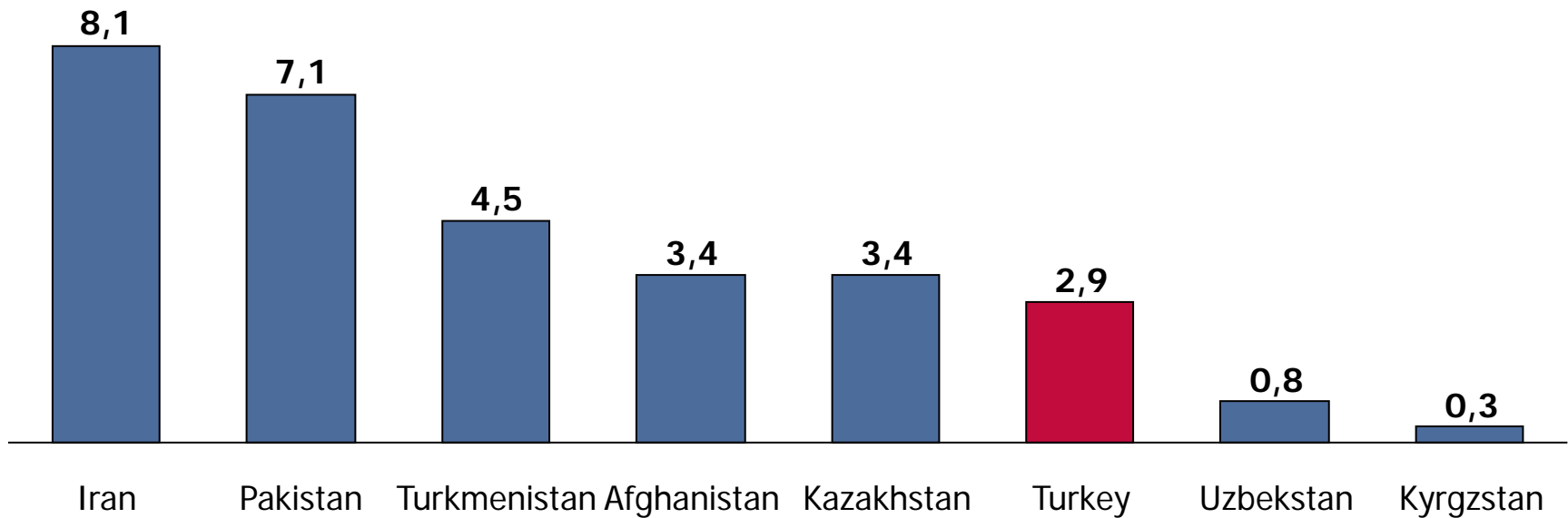
Share of intra-regional trade on total trade, 2013



How to facilitate regional integration?

The case of Chinese ODI to Silk Road countries

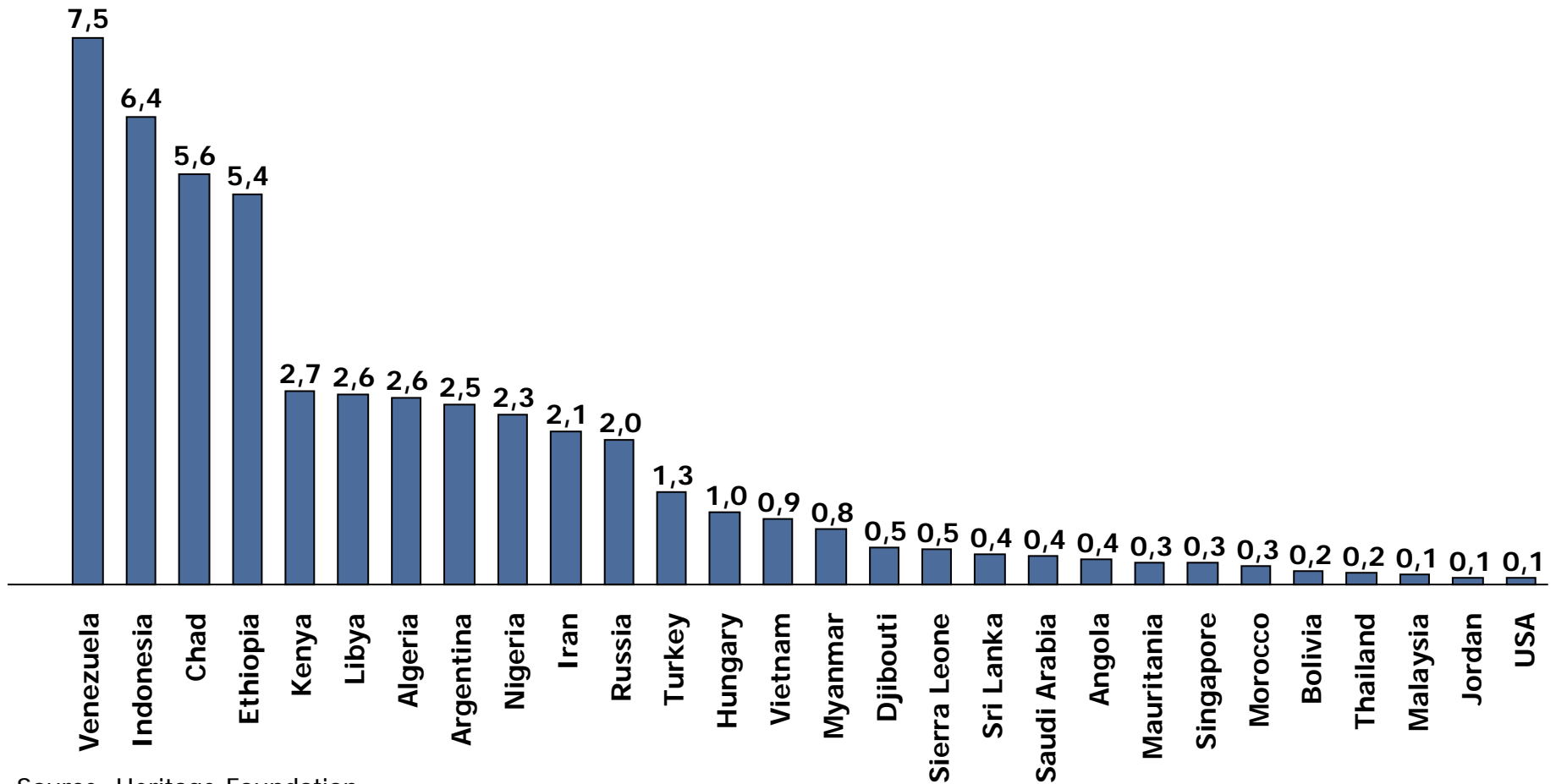
Chinese ODI to Silkroad countries, 2003-2014, USD billion



Chinese ODI on railroad sector

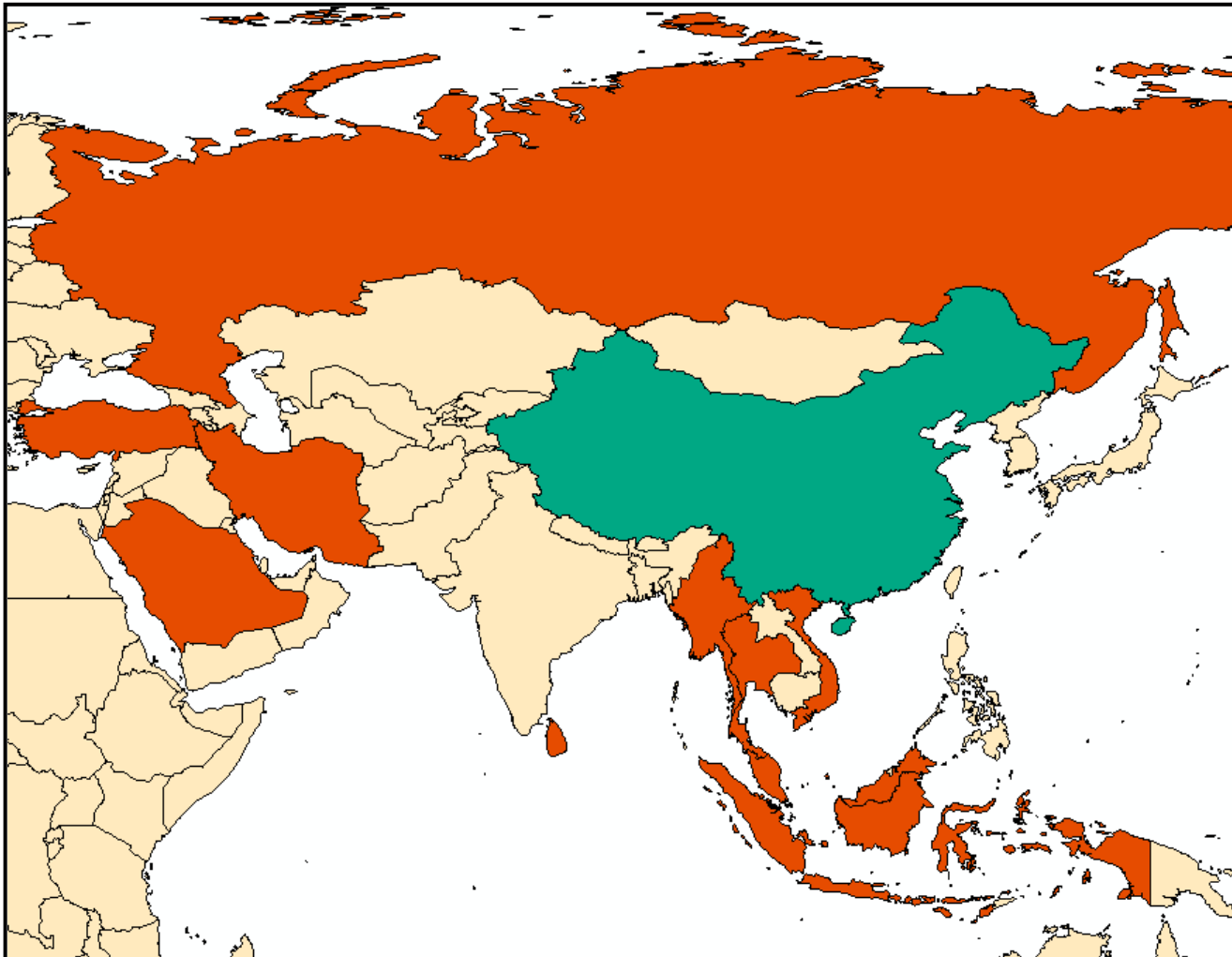
Improving connectivity for its imports and exports

Chinese ODI by country, railroad sector, (2005-2014), milyar USD



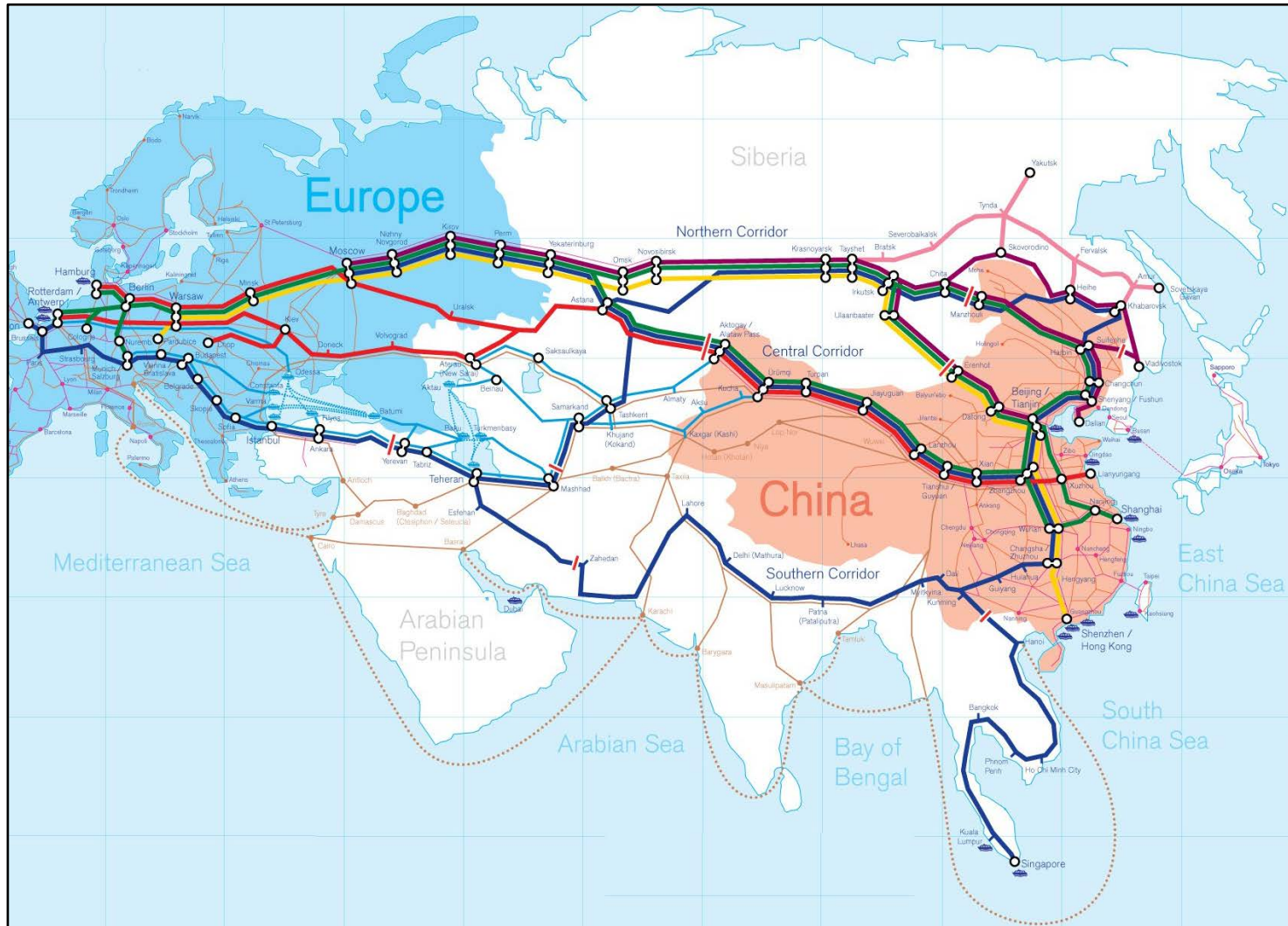
Notice a pattern?

Chinese ODI on railroads, by country



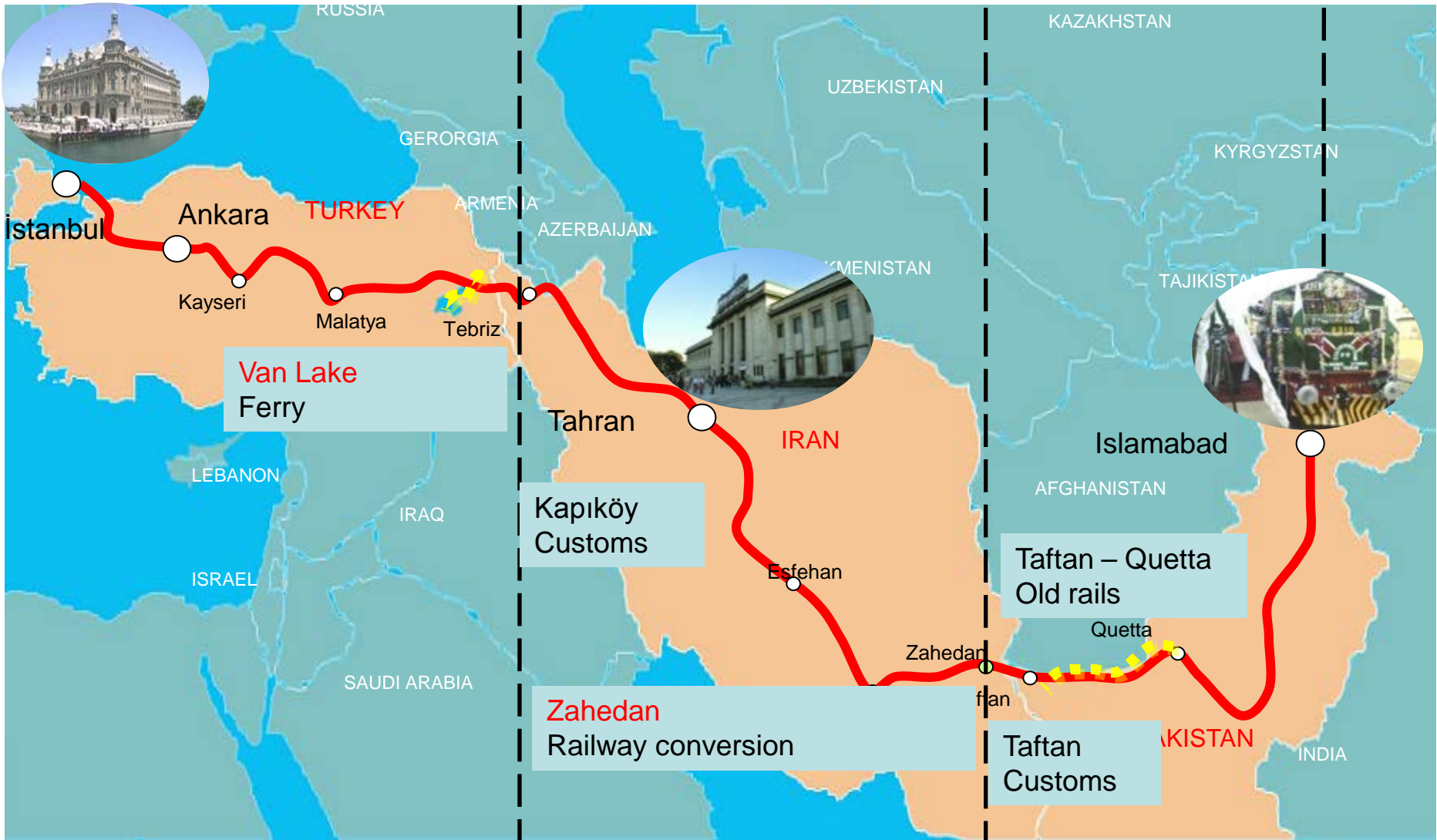
China's current trade routes

The modern Silk Road



Istanbul – Tehran - Islamabad Train

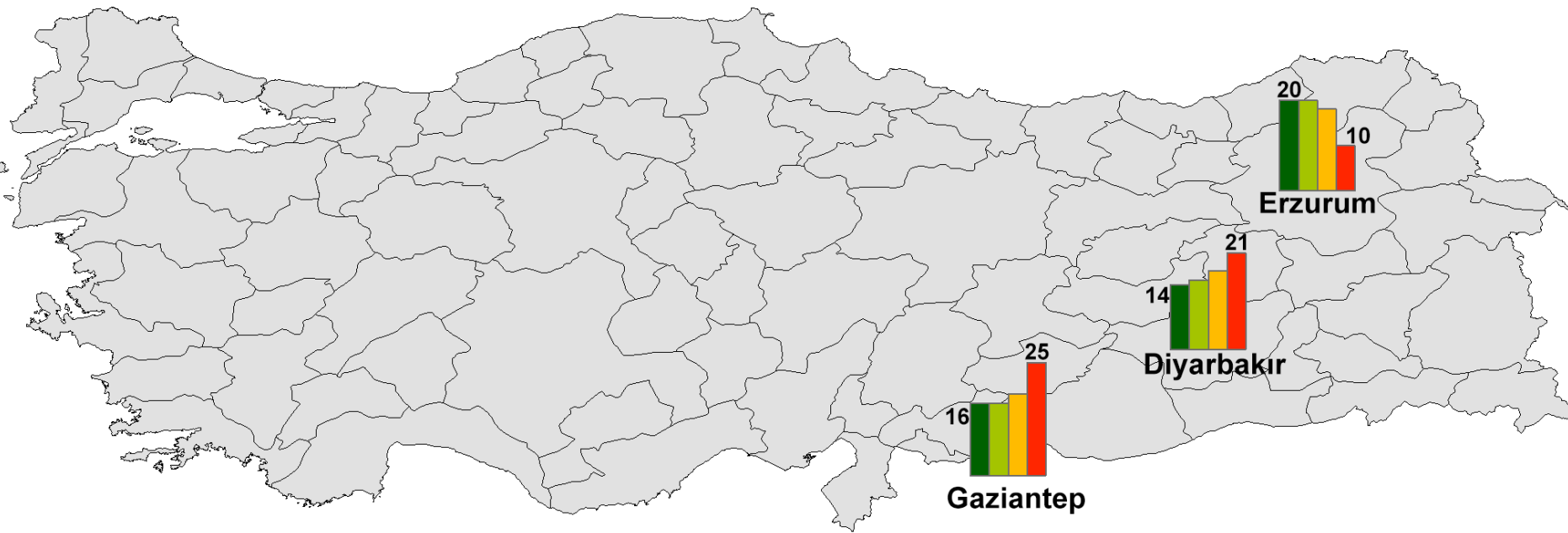
The route and the major bottlenecks



Why is Silk Road important for Turkey?

1. Reducing regional disparities

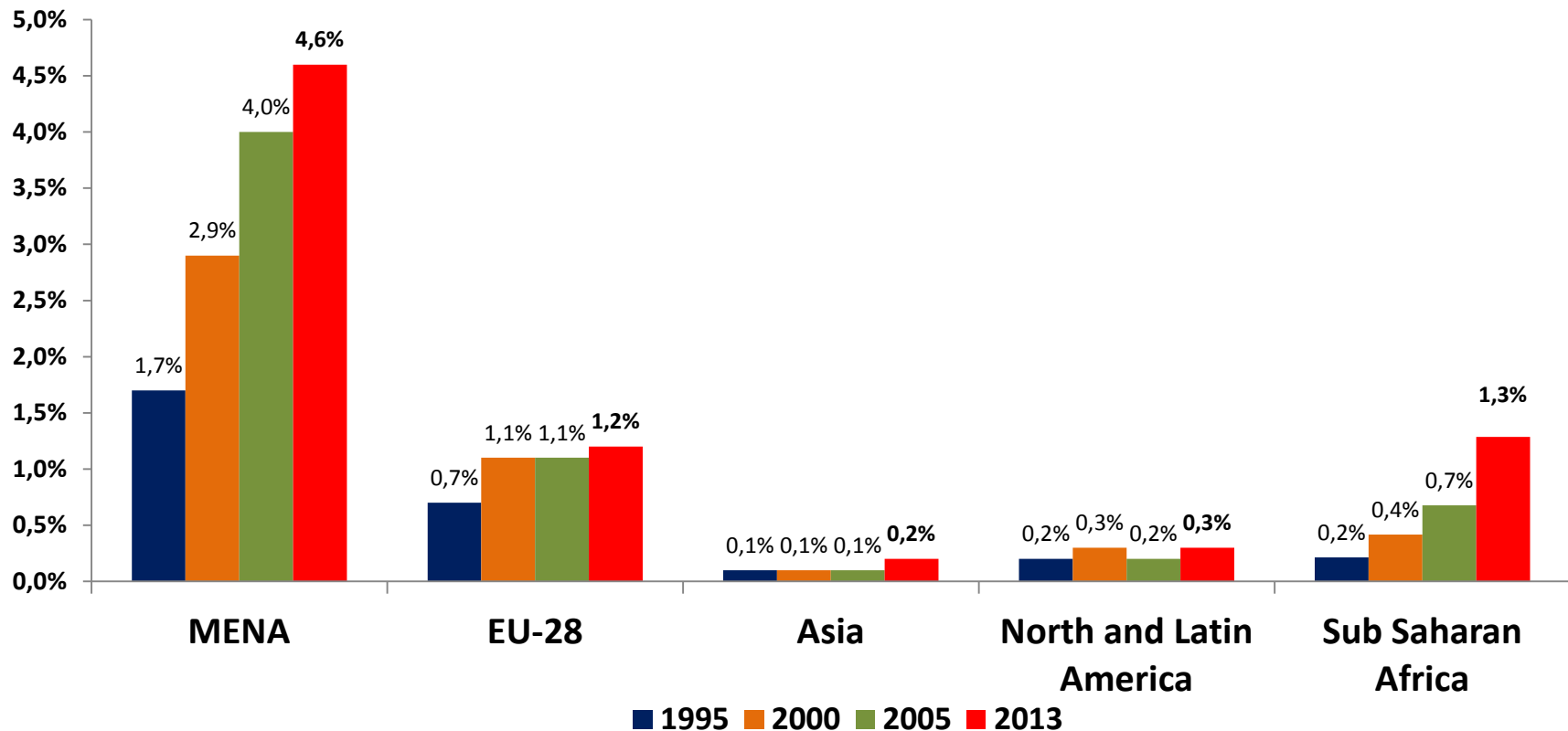
Erzurum, Gaziantep and Diyarbakır' s share of total population throughout history, 1927-1965-1980-2012, per 1000 people



Why is Silk Road important for Turkey?

2. Market diversification & access to Asia

Share of Turkish exports in global markets, 1995-2013, %



Concluding comments

- Trade routes getting important again over Asia
 - Change in the center of gravity of economic activity
 - More route options mean less costs
- Ride the China wave for further integration
 - Integrate region within itself and with the global economy
 - Physical vs regulatory integration
 - AIIB will be an important mechanism
- Integration leads to growth, growth leads to jobs, jobs lead to inclusiveness
 - Turkey can be one of the main actors as well as the main beneficiaries of further integration

Rank of economic inclusiveness

Country	Score		Rank	
	1990-1999	2000-2012	1990-1999	2000-2012
Armenia	0.60	0.68	21	18
Azerbaijan	0.73	0.83	8	2
Bangladesh	0.69	0.70	15	15
Cambodia	0.76	0.79	4	6
China	0.74	0.75	6	10
Georgia	0.73	0.70	9	16
India	0.67	0.68	17	17
Indonesia	0.70	0.72	12	13
Iran (Islamic Republic of)	0.61	0.65	20	22
Kazakhstan	0.79	0.83	2	1
Lao People's Democratic Republic	0.78	0.80	3	4
Malaysia	0.69	0.74	14	12
Maldives	0.49	0.76	22	8
Nepal	0.71	0.75	10	11
Pakistan	0.61	0.67	19	21
Philippines	0.66	0.68	18	19
Russian Federation	0.74	0.79	5	7
Sri Lanka	0.70	0.71	13	14
Tajikistan	0.71	0.75	11	9
Thailand	0.79	0.81	1	3
Turkey	0.69	0.67	16	20
Viet Nam	0.74	0.80	7	5