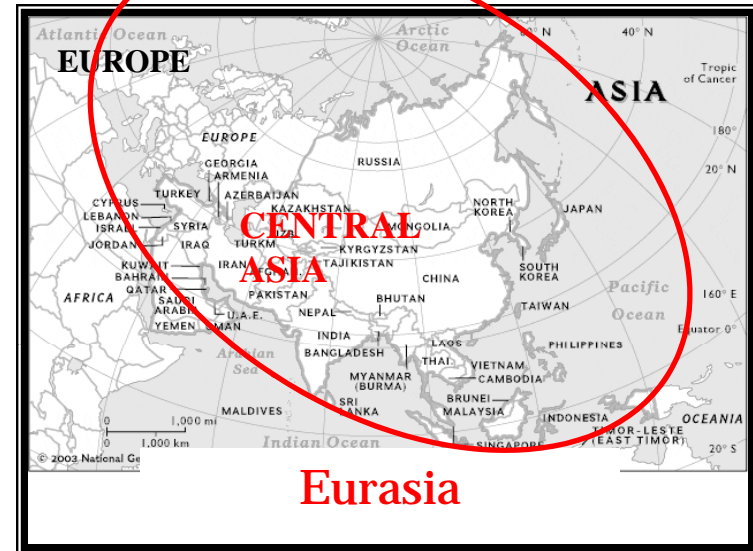


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Economic Integration of Eurasia: Opportunities and Challenges of Global Significance



Presentation at the Asian Development Bank Institute Event
*“Regional Cooperation and Integration in Central Asia under CAREC:
The Road to Stability and Prosperity”*



WOLFENSOHN
CENTER FOR
DEVELOPMENT
at BROOKINGS

Johannes F. Linn
Senior Fellow and Executive Director
Wolfensohn Center for Development at Brookings
CAREC Special Adviser

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Four main points

- Eurasian integration:
big opportunities – big challenges
- Central Asian integration: key for Central Asian prosperity and Eurasian integration
- Transport and energy: at the core of these integration processes
- Regional cooperation is critical across Eurasia and especially for Central Asia

Eurasian economic integration – the opportunity of the 21st Century

- The opening up of China and disintegration of Soviet Union → reintegration of a dynamic Eurasia; related infrastructure and institution building needs
 - **Energy (oil, gas, power)**
 - **Trade, transport, communications**
 - Capital, investment
 - Environment
 - Migration
 - Tourism
 - Epidemics, drugs, etc.

J. Linn and D. Tiomkin in *Asia Europe Journal*
Volume 4, Number 1 / April, 2006

Central Asia at the heart of Eurasia



Central Asia: Regional cooperation challenges and opportunities

Main areas for regional cooperation in Central Asia:

- ❑ **Energy, water, environment**
- ❑ **Trade, transport and trade facilitation**
- ❑ Education, health, migration
- ❑ Human security (disaster preparedness, drugs)

Benefits from regional cooperation/integration

- ➔ double GDP over 10 years

Source: UNDP Central Asia Human Development Report 2005



Energy and transport/trade integration in Eurasia and Central Asia

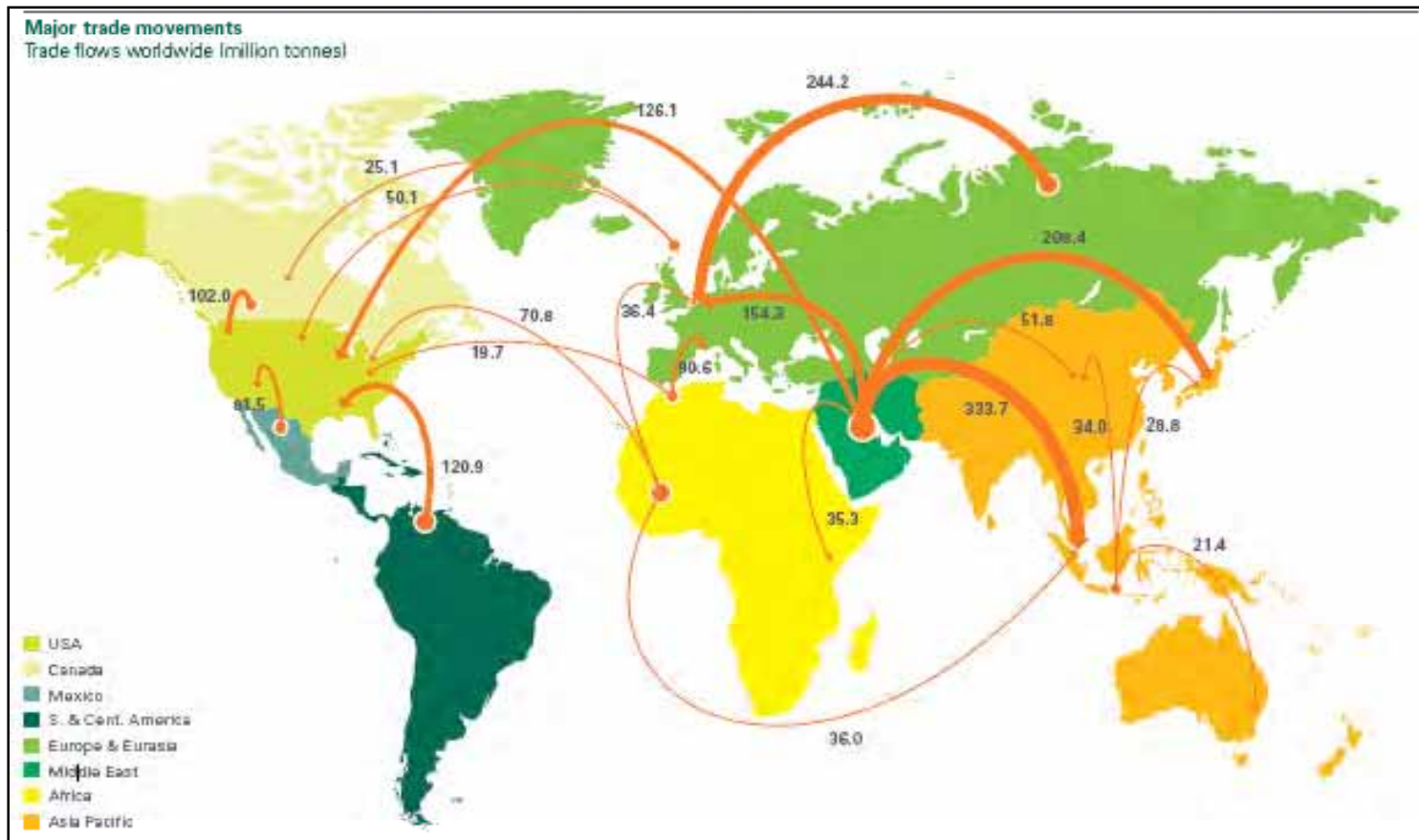
- Among all areas, energy and transport/trade integration are most dynamic
- Great opportunities, great challenges with integration
- Lots of potential gains for all, even as some conflicting/competing national interests
- Regional-wide perspectives and cooperation essential for effective development

A. Energy

A key sector for regional integration on the super-continent

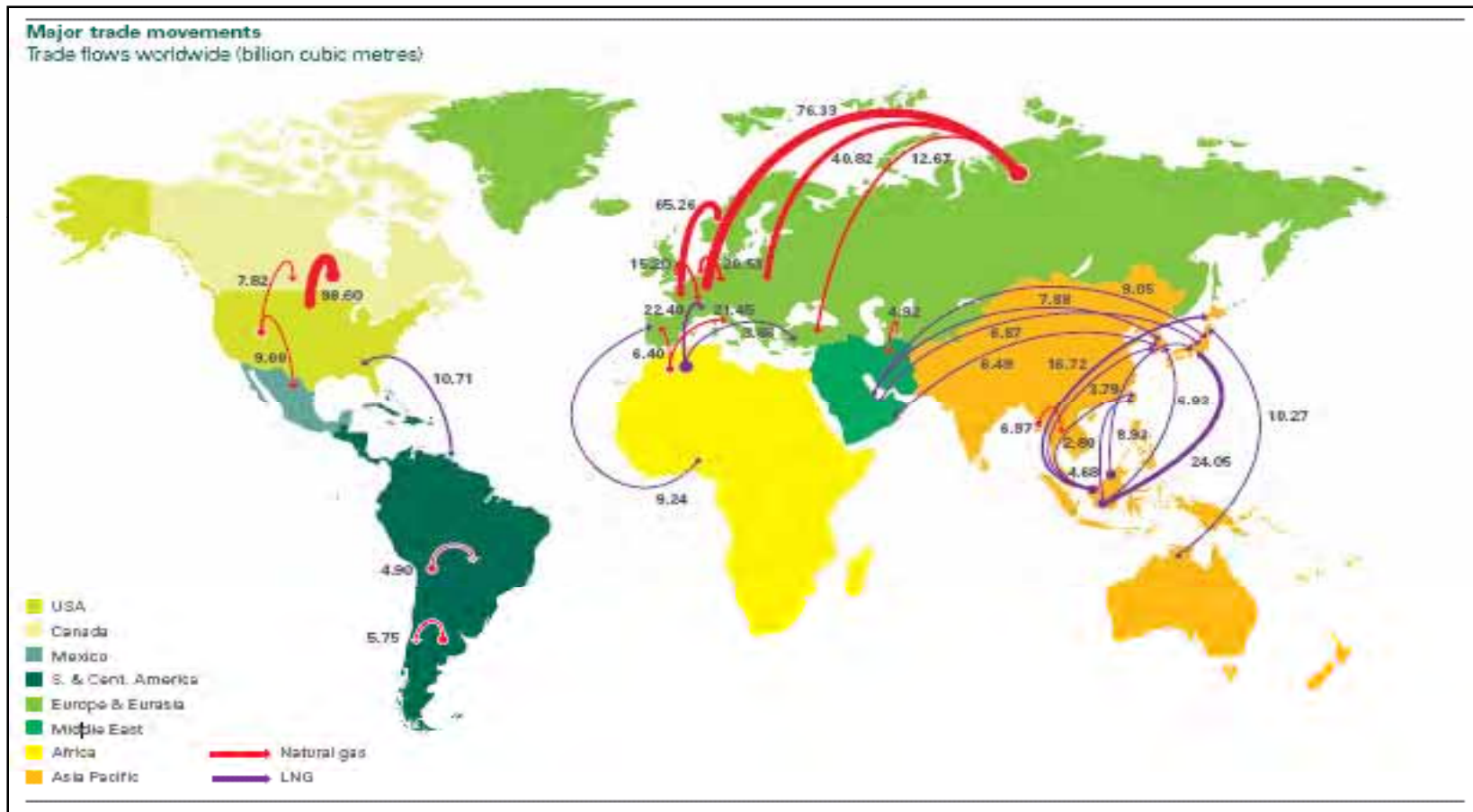
- Oil (25% of world reserves, 36% of production, 55% of consumption)
- Gas (57% of world reserves, 50% of production, 57% of consumption)
- Electricity

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)

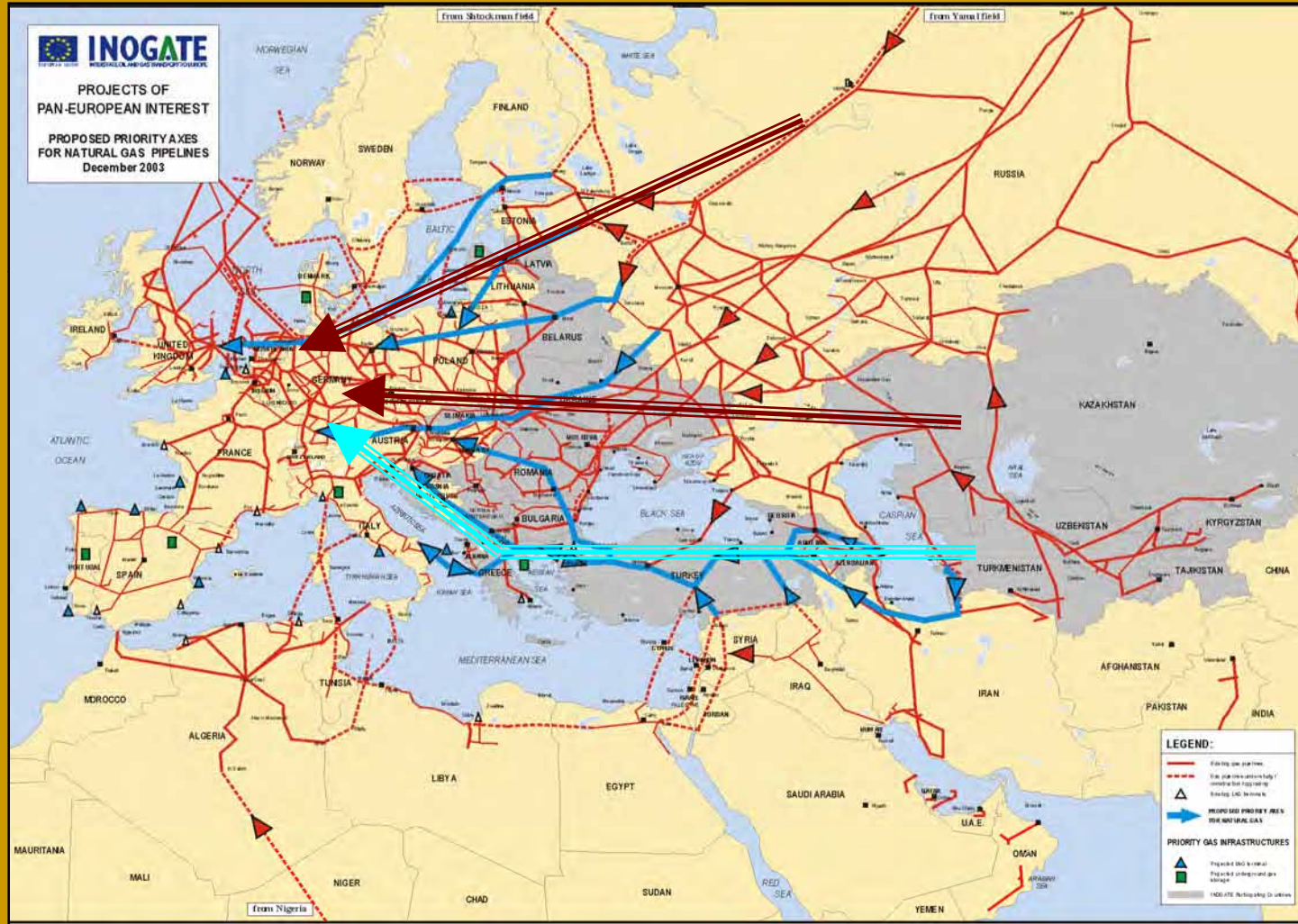


BP 2004 Statistical Review of World Energy

Europe-FSU Energy Integration

- High degree of integration of energy transport infrastructure Europe-FSU
- Dominance of Russia in oil transport and gas supplies; penetration of Gazprom in European energy sector (incl. distribution)
- European search for diversification of sources (Southern Corridor)
- Emerging competition with Asia

Natural Gas Transport Routes



FSU-Asian energy integration prospects

- Currently, FSU-Asia not nearly as integrated as FSU-Europe
- Some projects in progress for FSU-Asia (Russia-Pacific; Kazakhstan-China)
- Major projects on the drawing board (Turkmenistan-China gas; Turkmenistan-S. Asia gas; Central Asia-S. Asia electricity)
- But subject to significant uncertainties, given different interests of key players and significant costs and risks

Selected Oil and Gas Infrastructure in Eastern Eurasia



Source: Energy Information Administration

jlinn@brookings.edu

Major Southern Eurasia energy projects



● Oil Field
| Oil Pipeline
| Proposed Oil Pipeline

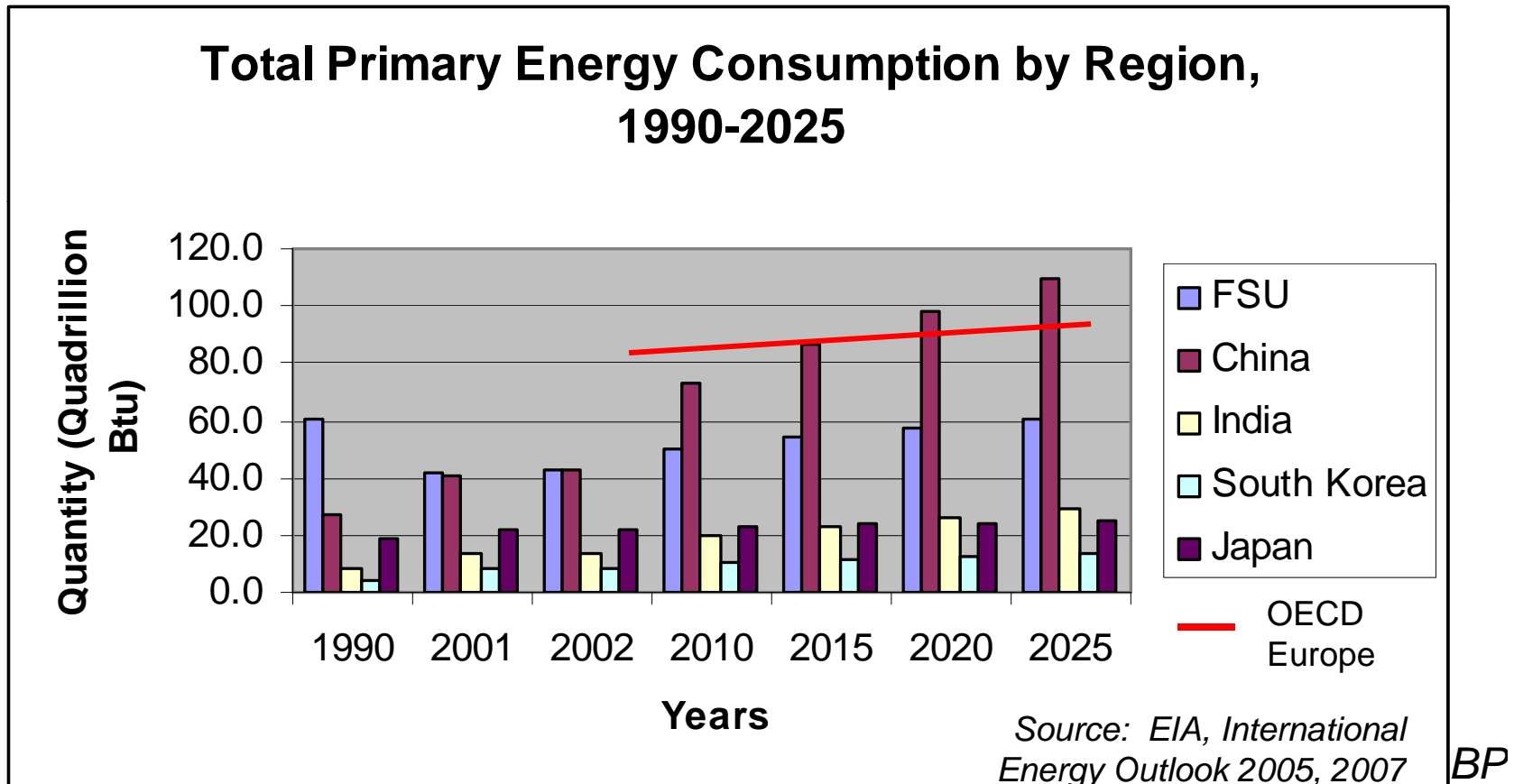
● Gas Field
| Gas Pipeline
| Proposed Gas Pipeline

Source: Wordpress.org

Drivers: Eurasia energy trends

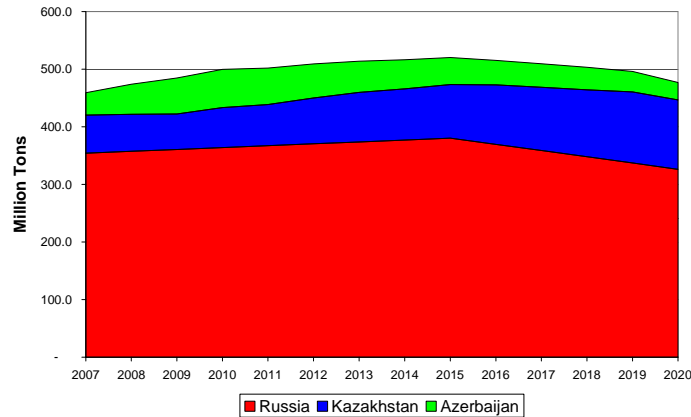
- Slow expansion of European and Japanese demand
- Rapid expansion of import demand in China, India; recovery from depressed levels in FSU
- Gas demand growing more rapidly than oil demand
- Rapid growth in electricity demand
- Rapid expansion of FSU energy exports in recent years, but now slowing down and likely to peak in the next 10-15 years
- Russia is the main factor on the supply side

Regional energy demand trends

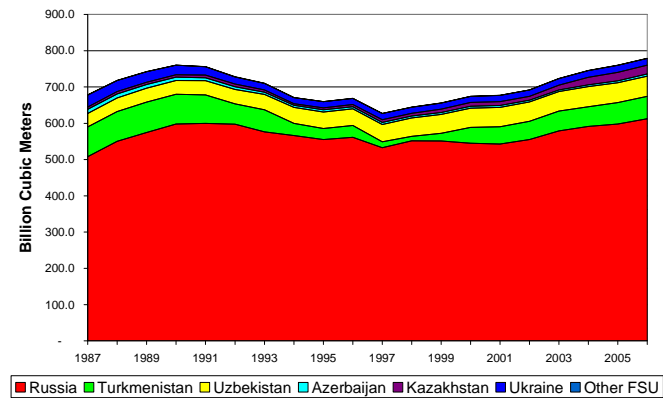


FSU oil and gas production and exports

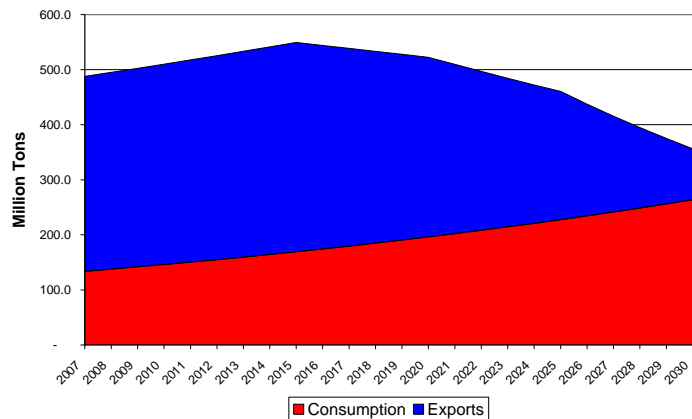
Oil Export Projections



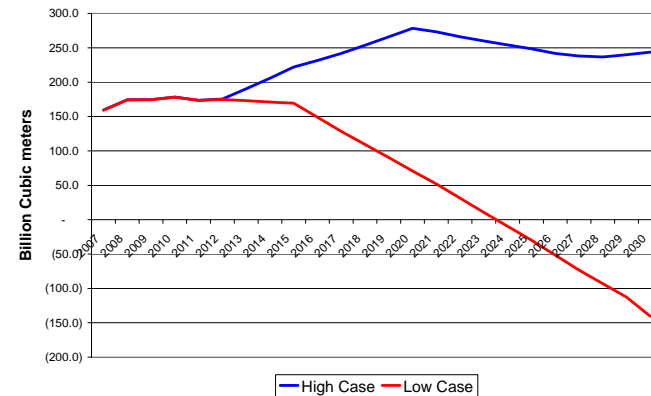
FSU Natural Gas Production



Russia Oil Production Projections



FSU Natural Gas Export Projections



Source: P. Thomson, World Bank

Diverging Energy Interests among Key Players

Russia:

Interests: exclusive control over supply (and distribution) chain; no transit; multiple market outlets

Challenges: increase production and control consumption

Central Asia:

Interests: control over national resource and transport assets; multiple transit routes and markets

Challenges: increase production for local and export consumption, cooperate with neighbors

China:

Interests: dedicated supplies from diversified sources with direct control over supply chain; serve a transit corridor

W. Europe, India, Japan, Korea:

Interests: diversified, secure supplies with limited transit

Eurasia energy sector integration: Conclusions

- Major opportunities for integration in Eurasia given dynamic energy demand/supply outlook
- Major challenges for energy development, integration and security
 - Efficiency of energy use/production/transport
 - Investments (+ improvements in O&M)
 - Financing (PPPs)
 - Regulation
 - Security
 - Conflicting and competing interests
 - Use of energy as a political instrument
- A regional perspective and cooperation are critical

B. Non-Energy Trade and Transport

- Three major trade blocs in Eurasia
 - Europe, CIS, Asia, with rapid growth in trade
 - Much trade with rest of world, esp. North America
 - But trade within and among Eurasian trade blocs more important than with N. America

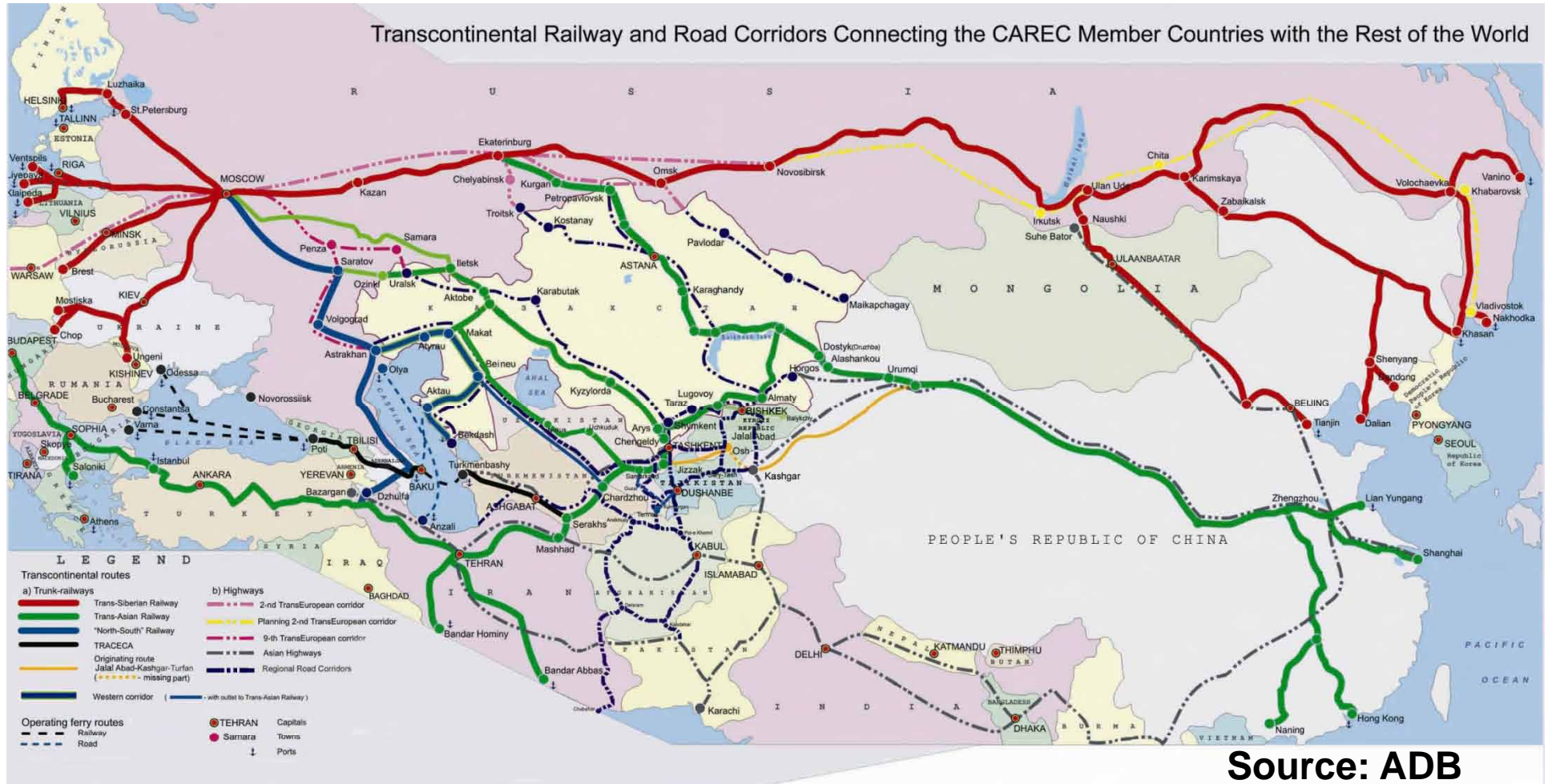
- Rapid Growth in Eurasian trade
 - East Asia ↔ European Union
 - \$244 billion in 1995; \$604 billion in 2006
 - East Asia ↔ Middle East
 - \$57 billion in 1995; \$276 billion in 2006
 - European Union ↔ South Asia
 - \$34 billion in 1995; \$81 billion in 2006
 - Russia ↔ South Asia
 - \$1.8 billion in 1995; \$ 4.9 billion in 2006

Source: ADB

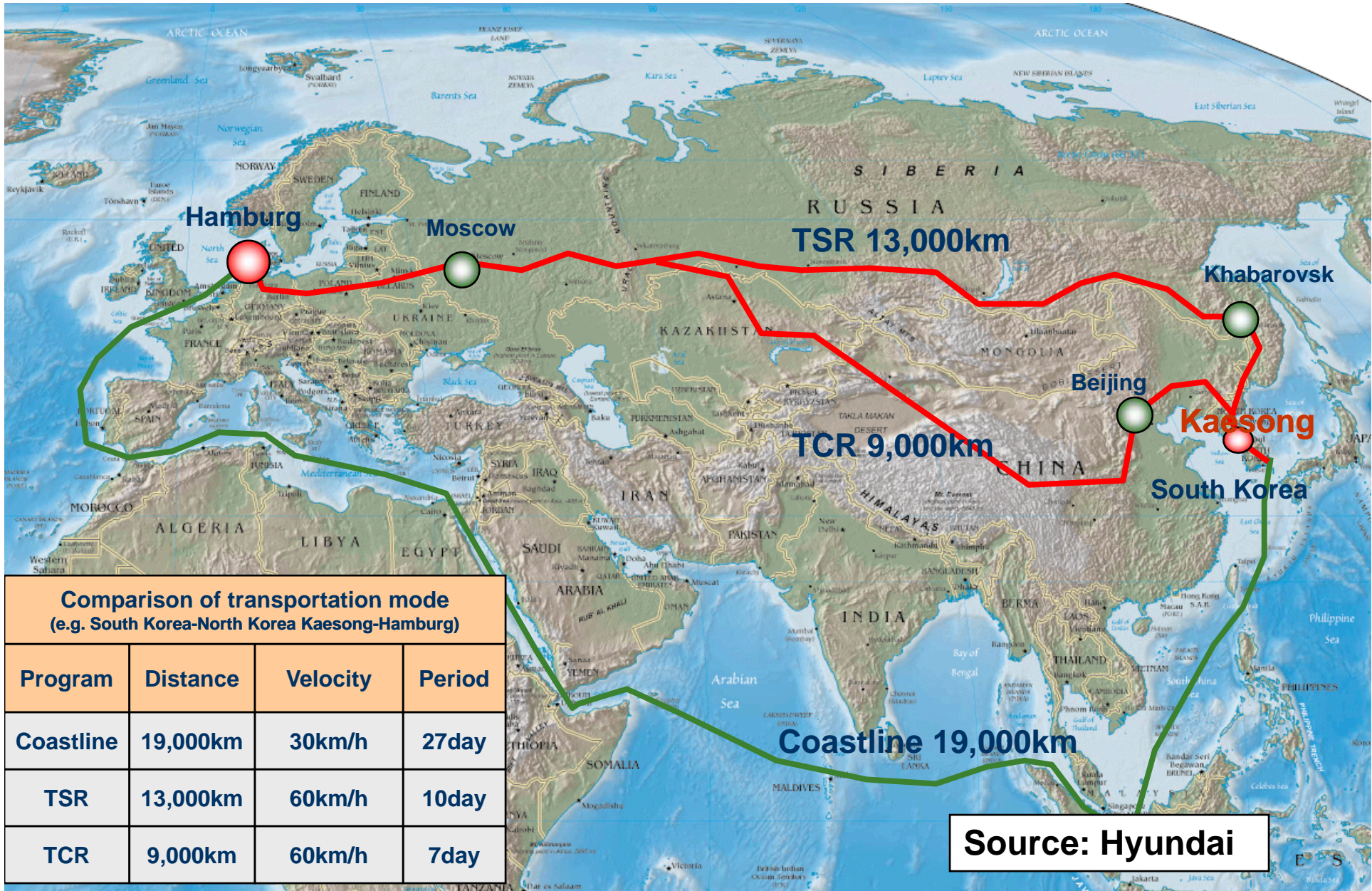
Drivers of Eurasian Trade Integration

- **Trade Policy**
 - WTO membership (China 2001, big CIS countries expected soon)
- **Transport**
 - Important investments in rail and road transport links needed, and some underway
 - Expected/needed expansion in air transport intensity (e.g., four-fold increase in flights Europe-China by 2020)
- **Trade facilitation**
 - Significant costs from weak and corrupt institutions
 - Security
- **Behind-the-border improvements**
 - Investment climate
 - Governance

Trans-Eurasian Transport Routes



Connecting TSR/TCR with Trans-Korea Railroad



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

Trade, Transport and Transit in Central Asia

– Great barriers and opportunities

- Trade, transport and transit barriers/costs are unnecessarily high in Central Eurasia; they could be halved with better border administration
- Trade could be much expanded despite land-locked location
- Lowering trade costs significantly increases incomes, employment and consumption in the region (conservative estimate: 20-55%), esp. for the poor

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
- Cooperation in transport/transit integration easier than in energy, but CIS region (plus Afghanistan, Iran and Pakistan/India border) still a major bottleneck

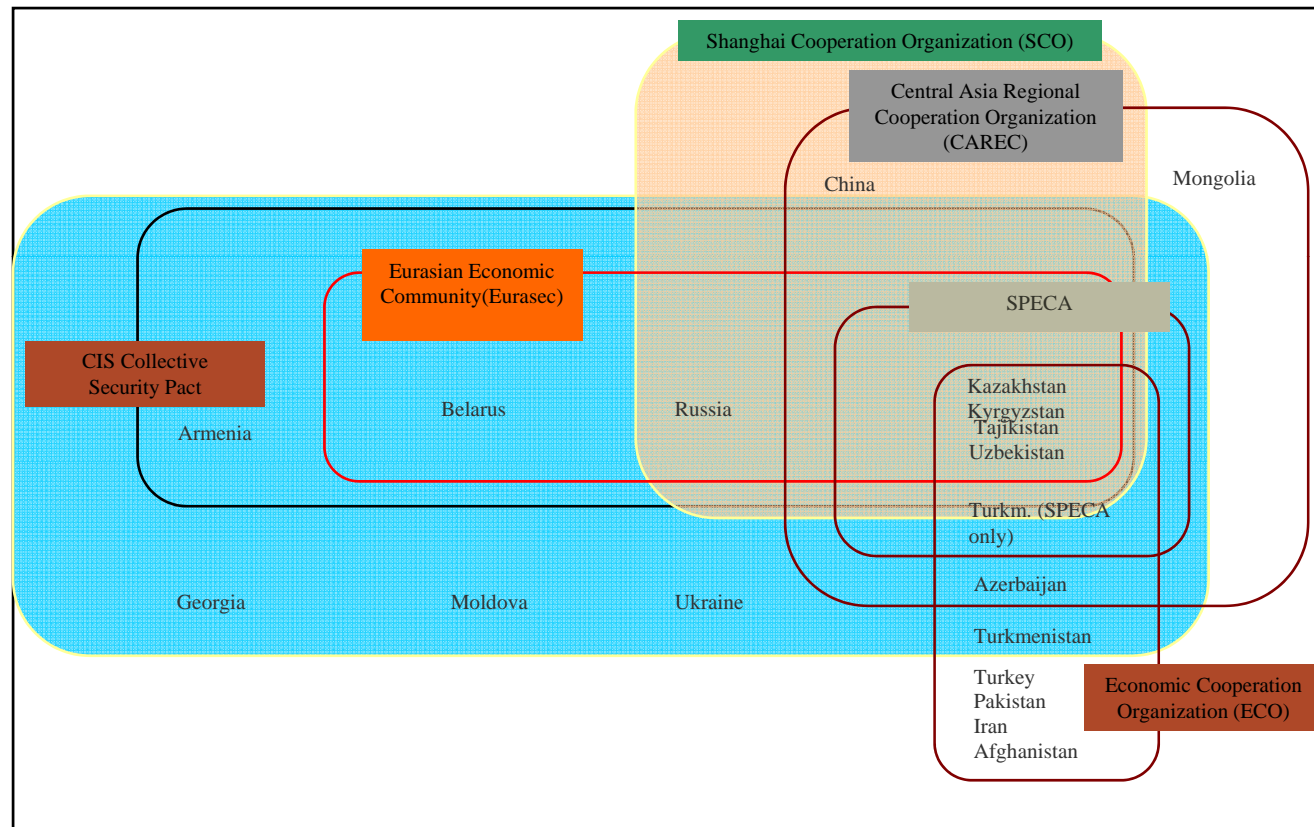
Overall Conclusion 1: Eurasian countries need to cooperate even without strong regional institutions

- Eurasian institutional integration will be gradual and partial
- Need for super-continental perspectives and institutional infrastructure in key sectors:
 - Energy transport and regulation
 - Trade policy, transport and transit
 - And others (drugs, epidemics, sub-regional conflict management)
- Sub-regional entities need to establish cooperative relations for key sectors (EU, ASEAN, SAARC, ASEM, SCO, EurasEC, CAREC, etc.)
- International Institutions (ADB, EBRD, IsDB, UNDP, World Bank) need to develop super-continental perspectives, esp. to facilitate “cross-border” integration of policies, investments and institutions
- China, EU, India, Japan, Russia are the key players; US secondary

Overall Conclusion 2: Regional cooperation in Central Asia is a real opportunity

- **Shared long-term interest in a stable, prosperous region**
 - A stable and prosperous Central Asia key to the integration of Eurasia
- **Current positive regional trends**
 - Economic recovery makes for greater incentives
 - Kazakhstan has emerged as a regional leader
 - Integration is happening, esp. among Kazakhstan, Kyrgyz Republic and Tajikistan
 - Growing links with Afghanistan, possible opening of Turkmenistan
- **Positive external factors**
 - Eurasian integration as a driving force
 - Growing support from large neighbors for regional cooperation
 - Support from international development partners
 - Growing strength of regional organizations (SCO, EurAsEC, CAREC)

Annex: fragmented regional organizations



... and support by development partners is fragmented