

Business Opportunities and Challenges of Economic Integration within Eurasia

Presentation at the
**Preparatory Meeting of the
Central – South Asia Regional Business
Roundtable (RBR)**
3-4 November 2005
Hyatt Regency, Bishkek, Kyrgyz Republic

11/2/2005

Johannes F. Linn,
jlinn@brookings.edu

1

Outline of presentation

- Eurasian integration – past and future
- Key (super)continental linkages
 - Energy trade
 - Non-energy trade
 - Capital flows
 - Communication
- Central Asia at the core of Eurasia -- constraint or opportunity?
- Key questions and conclusions for future integration of Eurasia

11/2/2005

Johannes Linn,
jlinn@brookings.edu

2

1. Eurasian integration – past and future

11/2/2005

Johannes Linn,
jlinn@brookings.edu

3

Eurasia's past



← Silk Road →

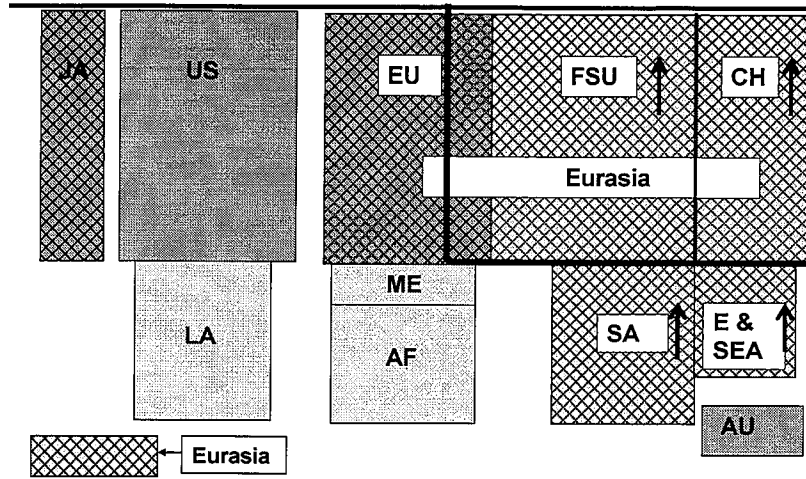
NATIONAL GEOGRAPHIC marcopolo
EXPEDITIONS
www.nationalgeographic.com/expeditions

11/2/2005

Johannes Linn,
jlinn@brookings.edu

4

The world of today and tomorrow (1990-2020)



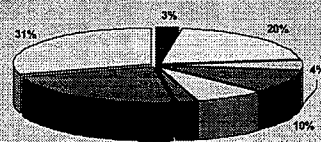
11/2/2005

Johannes Linn,
jlinn@brookings.edu

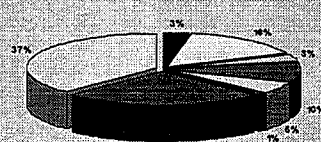
5



World Population 2004
(6.4 billion)

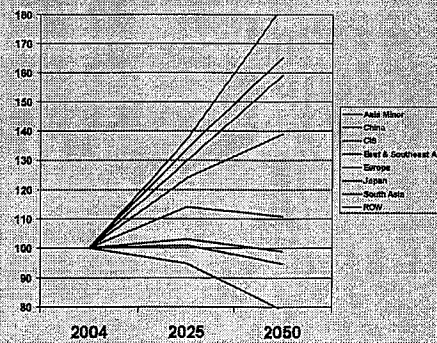


World Population 2050
(9.3 billion)



■ Asia Minor □ China
 □ CIS ■ East & Southeast Asia
 □ Europe ■ Japan
 ■ South Asia □ ROW

Population Growth 2004-2050

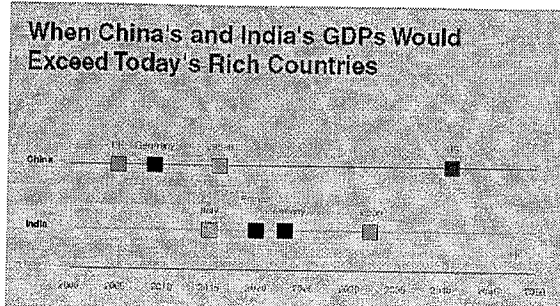


In 2003 Eurasia's GDP 53% of World GDP;
by 2050 perhaps 60% or more.

Source: PRB 2004 World Population Data Sheet.

jlinn@brookings.edu

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

11/2/2005

Johannes Linn,
jlinn@brookings.edu

7

2. Key Eurasian Economic Linkages

11/2/2005

Johannes Linn,
jlinn@brookings.edu

8

A. Energy trade

A key sector for regional integration on the super-continent

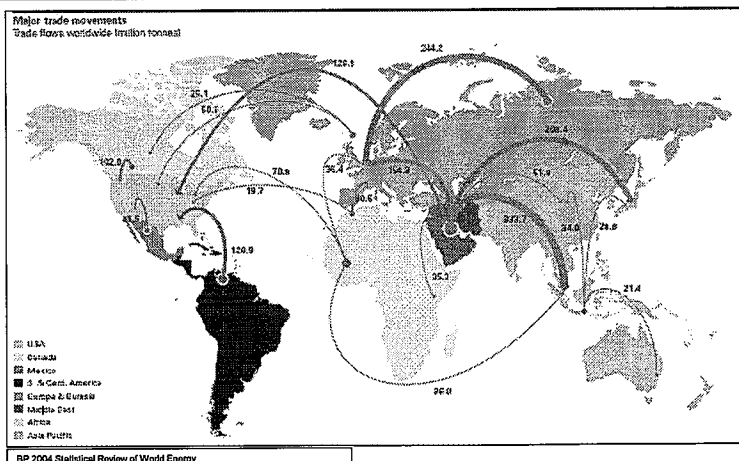
- Oil (25% of world reserves, 36% of production, 55% of consumption)
- Gas (57% of world reserves, 50% of production, 57% of consumption)
- Electricity

11/2/2005

Johannes Linn,
jlinn@brookings.edu

9

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

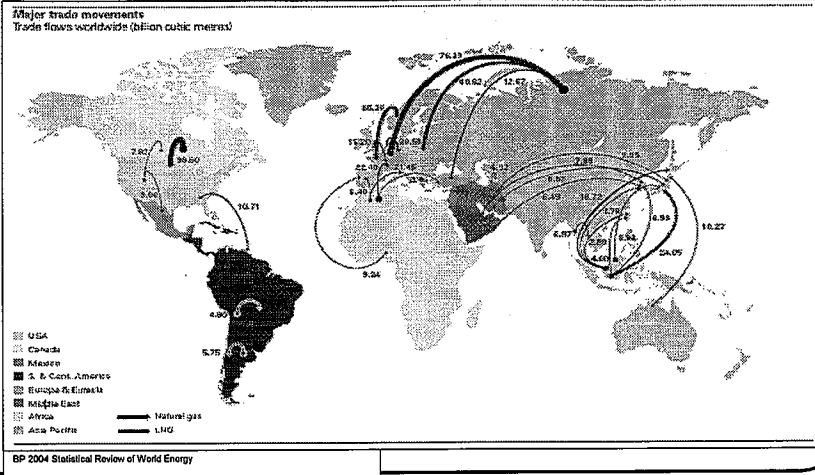


11/2/2005

Johannes Linn,
jlinn@brookings.edu

10

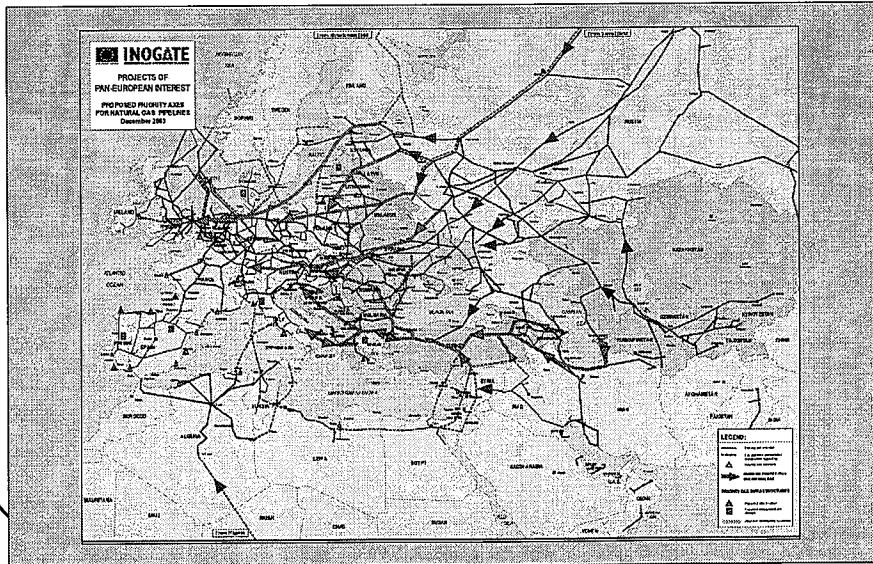
Principal Gas Flows (no trans-oceanic flows)



11/2/2005

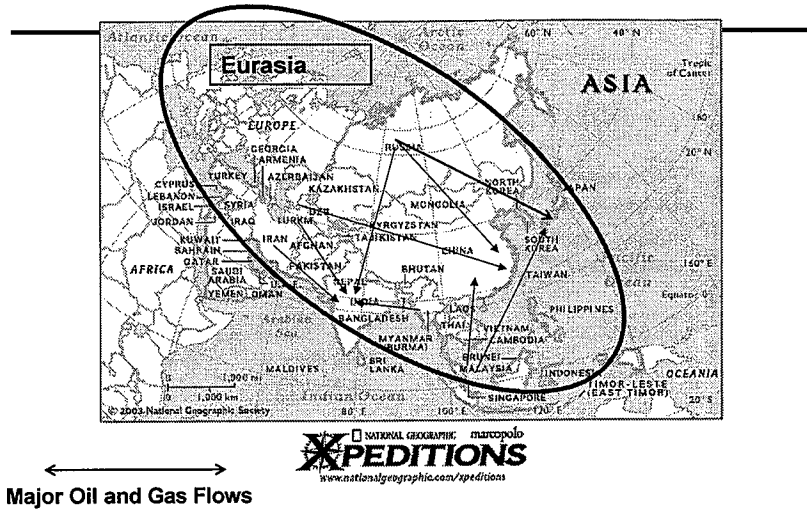
Johannes Linn,
jlinn@brookings.edu

11



jlinn@brookings.edu

Future Energy Flows to the East and South

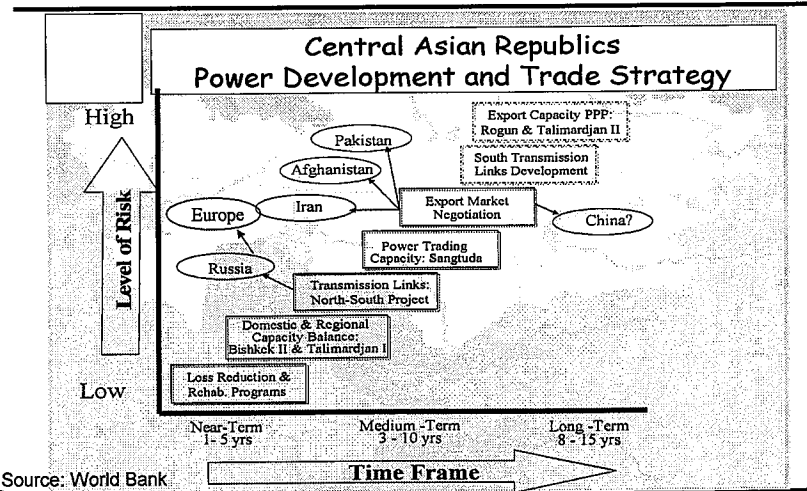


11/2/2005

Johannes Linn,
jlinn@brookings.edu

13

Electricity Export Options for Central Asia



11/2/2005

Johannes Linn,
jlinn@brookings.edu

14

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

11/2/2005

Johannes Linn,
jlinn@brookings.edu

15

B. Non-energy trade

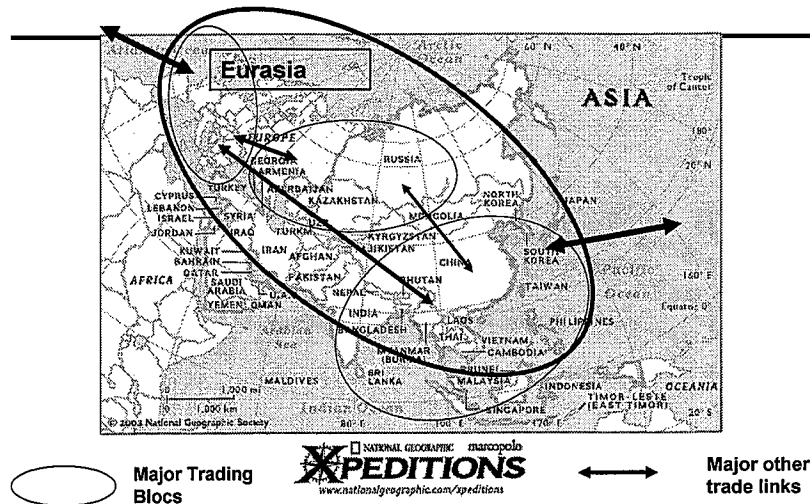
- Three major trade blocs in Eurasia
 - Europe, CIS, Asia, with rapid growth in trade
 - Much trade with rest of world, esp. N. America
 - But trade within and among Eurasian trade blocs more important than with N. America
- Trade policies matter
 - WTO membership (China 2001, big CIS countries expected soon)
 - Regional/bilateral agreements prevalent, but a mixed blessing

11/2/2005

Johannes Linn,
jlinn@brookings.edu

16

Non-Energy Trade Blocs



11/2/2005

Johannes Linn,
jlinn@brookings.edu

17

Transport and transit are key for Eurasian trade integration

- 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

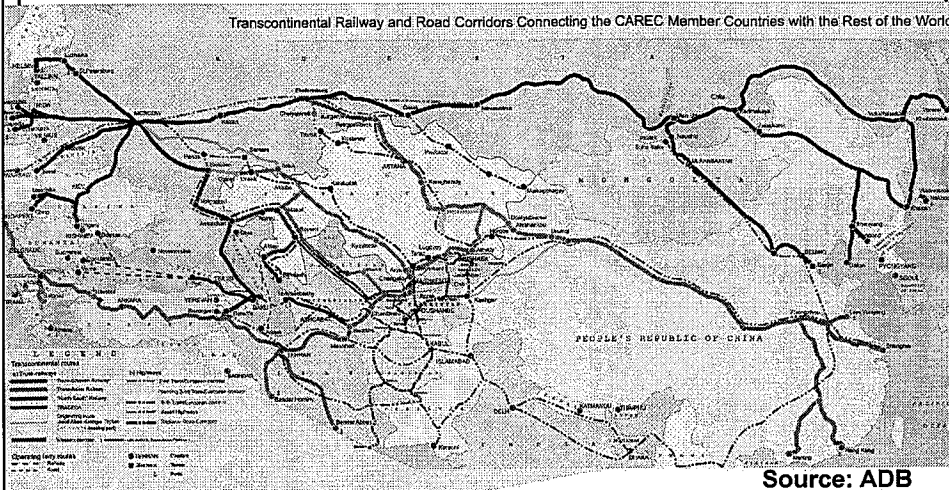
11/2/2005

Johannes Linn,
jlinn@brookings.edu

18

CAREC Transport Routes

Transcontinental Railway and Road Corridors Connecting the CAREC Member Countries with the Rest of the World



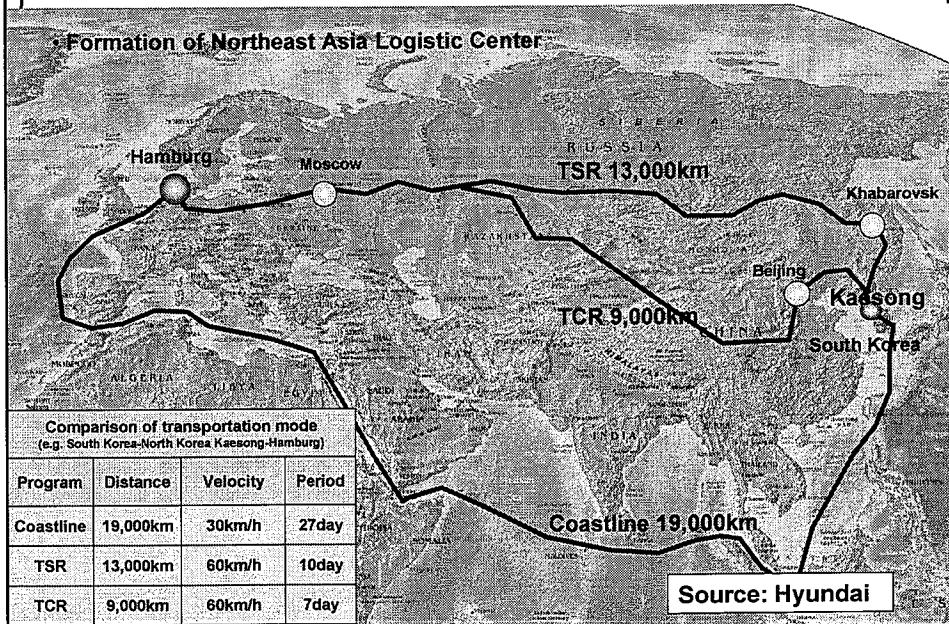
11/2/2005

Johannes Linn,
jlinn@brookings.edu

19

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

11/2/2005

Johannes Linn,
jlinn@brookings.edu

21

C. 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

11/2/2005

Johannes Linn,
jlinn@brookings.edu

22

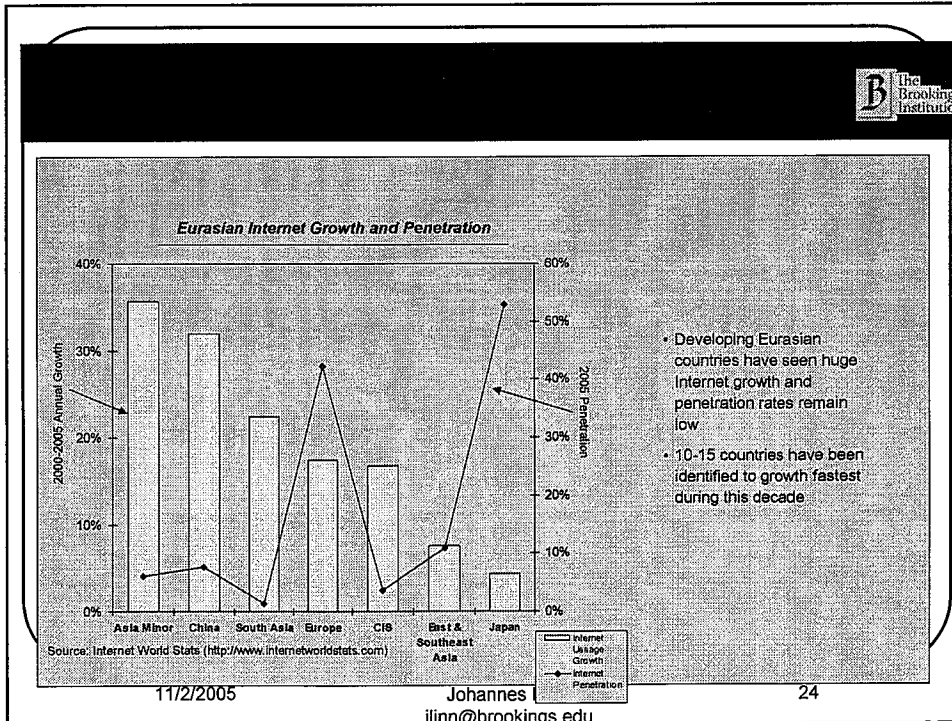
D. Communication and knowledge

- 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
 - Research and other institutional networks are expanding rapidly
 - Business connectivity growing rapidly
- This cuts the effective cost of distance and will support other areas of integration

11/2/2005

Johannes Linn,
jlinn@brookings.edu

23



3. Central Asia at the core of Eurasia

11/2/2005

Johannes Linn,
jlinn@brookings.edu

25

Central Asia at the core of Eurasia, but...

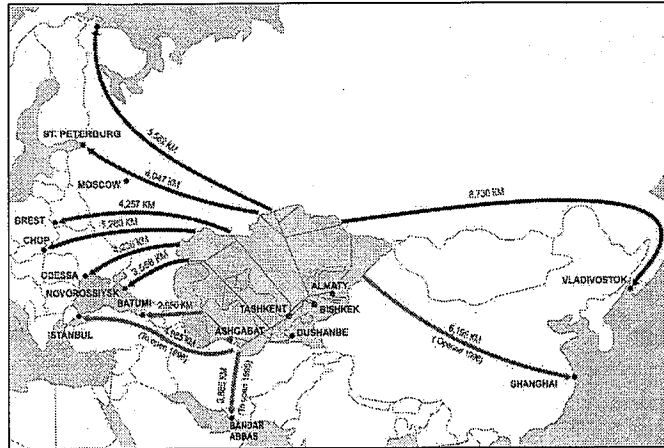


11/2/2005

Johannes Linn,
jlinn@brookings.edu

26

... landlocked and at a great distance from ports.

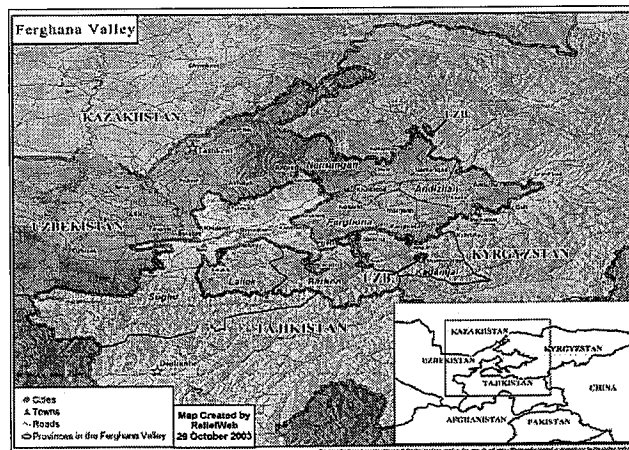


11/2/2005

Johannes Linn,
jlinn@brookings.edu

27

Jig-saw puzzle borders divide Central Asia and...



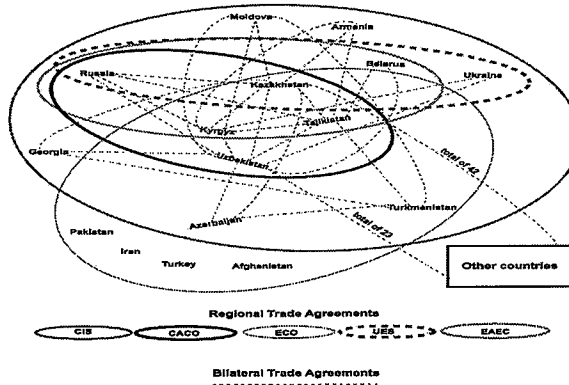
11/2/2005

Johannes Linn,
jlinn@brookings.edu

28

...and a spaghetti bowl of trade agreements...

Figure 2.1. The Spaghetti Bowl Effect of Regional and Bilateral Trade Agreements Involving Central Asian Countries



11/2/2005

Johannes Linn,
jlinn@brookings.edu

Source: UNDP

29

...and poor governance....

Corruption Perception Indices in Central Asia

Country	Nations in Transit Corruption Score	Percentage of countries in the world ranking worse in forms of corruption	Corruption perception, 2003	Global Corruption Ranking, 2003	Survey response to question: Is corruption very or somewhat serious? (per cent)	Survey response to question: Is corruption very or somewhat serious in the courts? (per cent)	Survey response to question: Is corruption very or somewhat high among staff of passport and registration offices? (per cent)
Kazakhstan	6.5	10.8	2.4	100	85	81	n.a.
Kyrgyz Republic	6.0	23.7	2.1	118	81	77	70
Tajikistan	6.25	10.3	1.8	124	79	79	61
Turkmenistan	6.5	4.6	n.a.	n.a.	n.a.	n.a.	n.a.
Uzbekistan	6.0	11.9	2.4	100	77	72	50
Russian Federation	5.75	29.1	2.7	86	n.a.	n.a.	n.a.
Hungary	2.75	74.4	4.8	40	n.a.	n.a.	n.a.

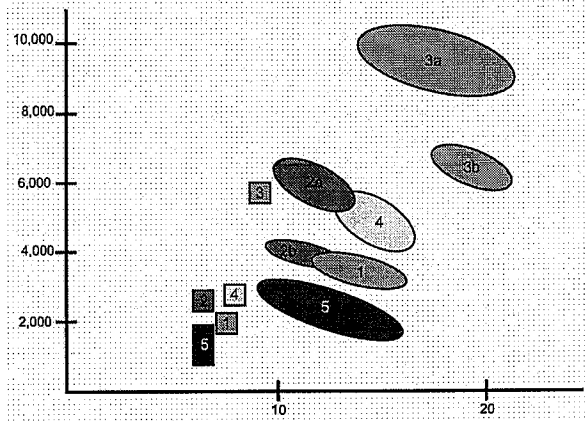
11/2/2005

Johannes Linn,
jlinn@brookings.edu

Source: UNDP

30

...create unnecessarily high transport costs



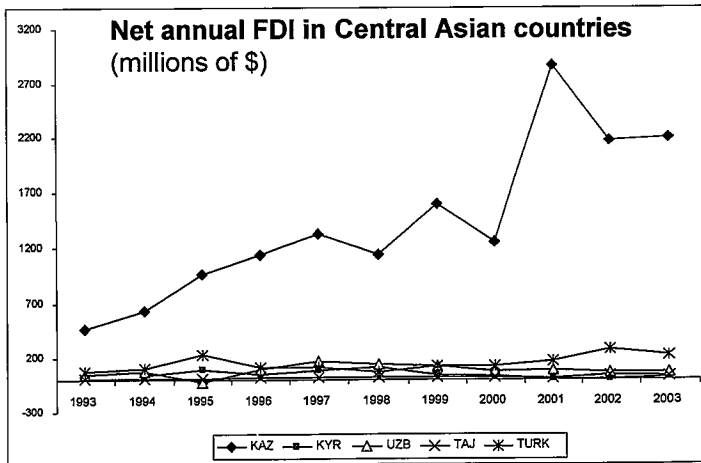
11/2/2005

Johannes Linn,
jlinn@brookings.edu

Source: UNDP

31

Foreign direct investment remains low...



11/2/2005

Johannes Linn,
jlinn@brookings.edu

Source: UNDP

32

...as does the number of small and medium enterprises...

Selected data for small and medium enterprises

Country	Kazakhstan	Kyrgyz Republic	Tajikistan	Uzbekistan	EU-8 average
Total number of enterprises	521,556 (2003)	22,670 (2001)	6,192 (2002)	235,800 (2002)	340,577 (2002)
Enterprises per 1,000 population	35 (2003)	5 (2001)	1 (2002)	9 (2002)	48 (2002)

11/2/2005

Johannes Linn,
jlinn@brookings.edu

Source: UNDP

33

...because business conditions remain very difficult.

Business regulations in Central Asia: the complexity of enforcing contracts

Indicator	Average Kazakhstan, Kyrgyz Republic, Uzbekistan	Average Europe and CIS	Average OECD
Number of procedures	40	29	19
Time (days)	420	412	229
Cost (% of debt)	24.8	17.7	10.8

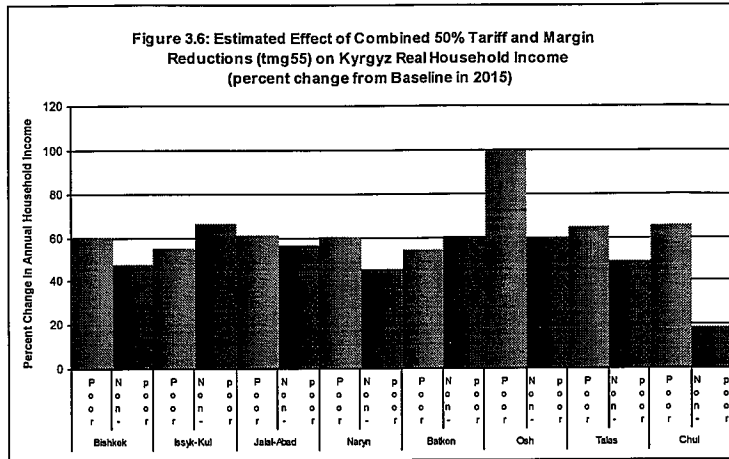
11/2/2005

Johannes Linn,
jlinn@brookings.edu

Source: UNDP

34

Improved regional cooperation could double regional GDP over 10 years!



11/2/2005

Johannes Linn,
jlinn@brookings.edu

Source: UNDP

35

4. Concluding comments

11/2/2005

Johannes Linn,
jlinn@brookings.edu

36

Key questions for the 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)
- What opportunities for business when?

11/2/2005

Johannes Linn,
jlinn@brookings.edu

37

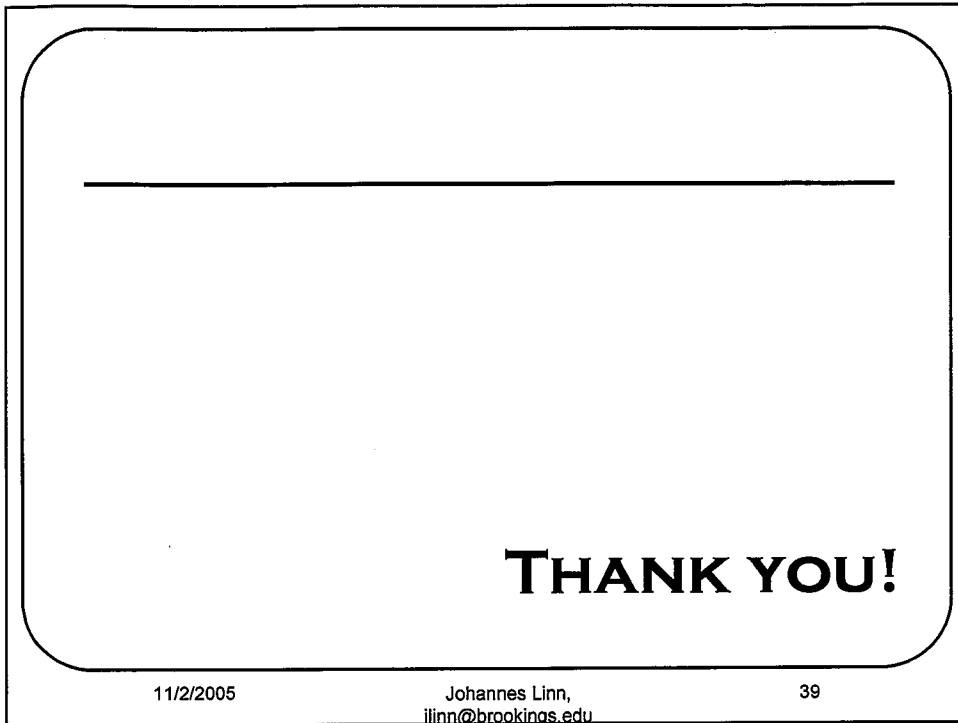
The key conclusions

- Eurasia is the new frontier of global growth and integration.
- Central Asia is at Eurasia's core.
- It's success will determine to a significant extent how Eurasia's integration will proceed.
- Economics and business can drive a prosperous and peaceful future for the super continent!

11/2/2005

Johannes Linn,
jlinn@brookings.edu

38



11/2/2005

Johannes Linn,
jlinn@brookings.edu

39