

# ***Economic Integration of Eurasia: Opportunities and Challenges of Global Significance***

**Presentation at the KIEP Leading Experts Seminar  
Seoul, July 8, 2005**

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# Introduction

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- Focus in Europe these days on internal matters, not surprisingly
- Extension of the horizon at the conference welcome and important
- This paper goes a longer way than usual – looks at integration of Eurasian “Super-Continent” as an important new phenomenon
- Start with a definition and a brief historical perspective

# Eurasia



←→  
**Silk Road**

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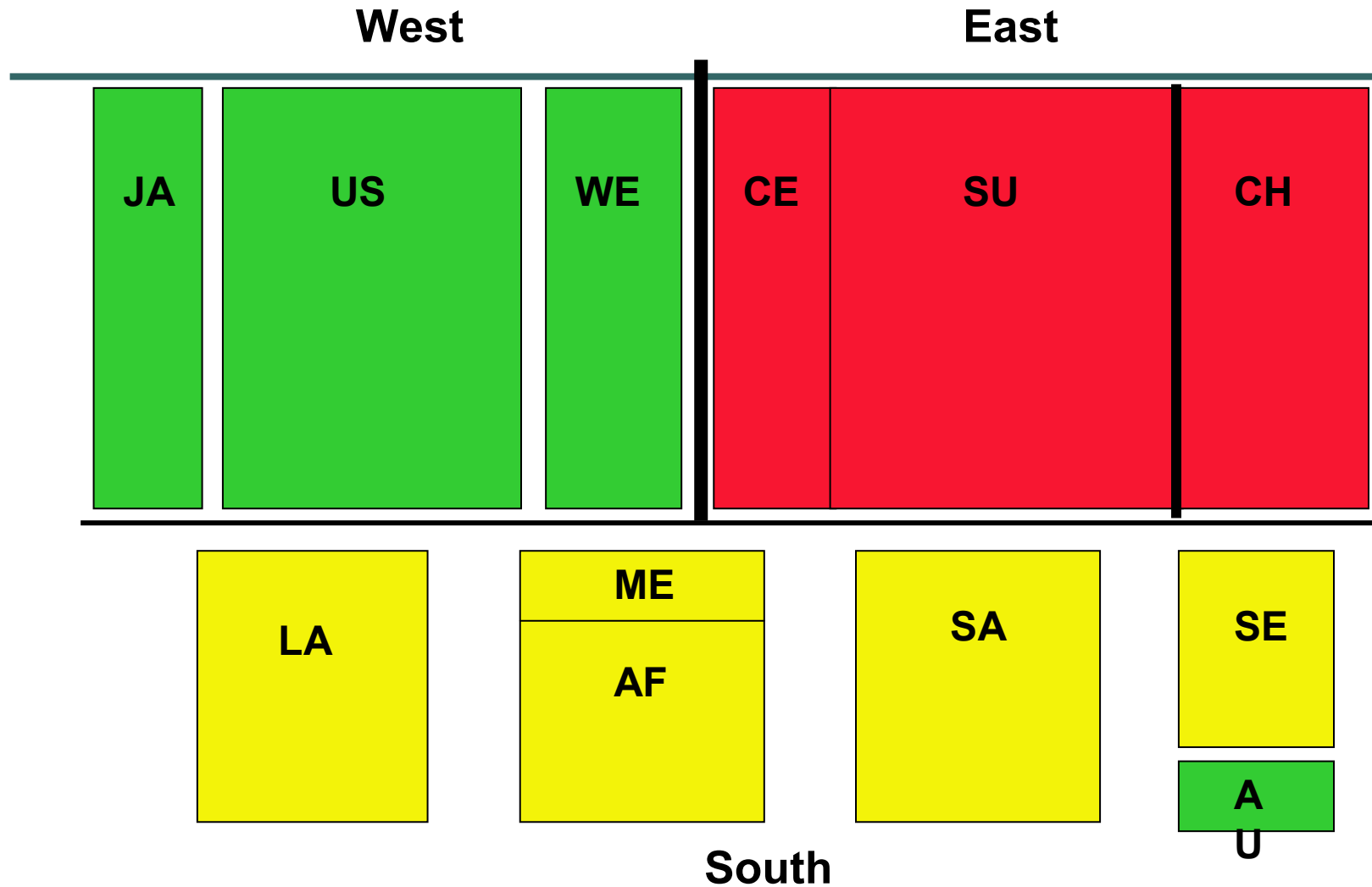
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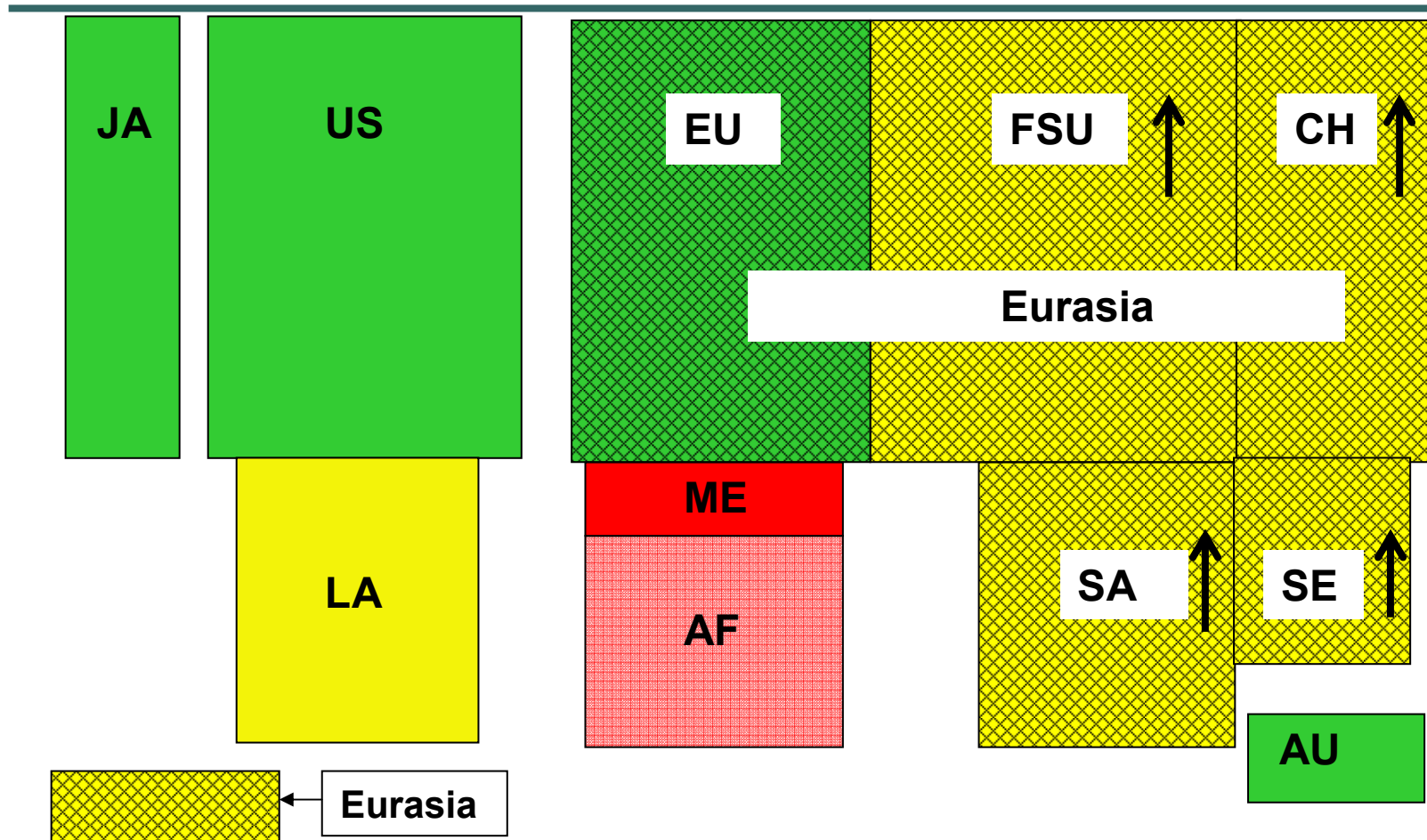
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# The world of yesterday

(1955-1985)



# The world of today and tomorrow (1990-2020)



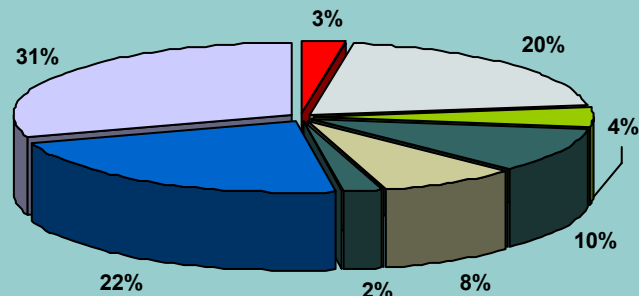
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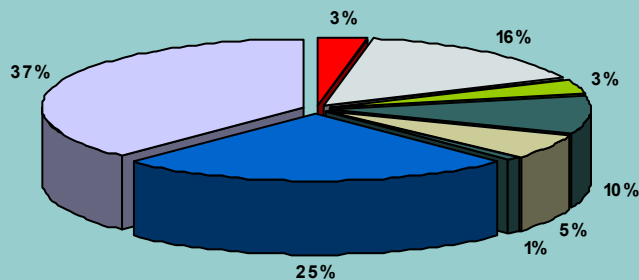
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# Global Population Growth & Composition

**World Population 2004**  
(6.4 billion)

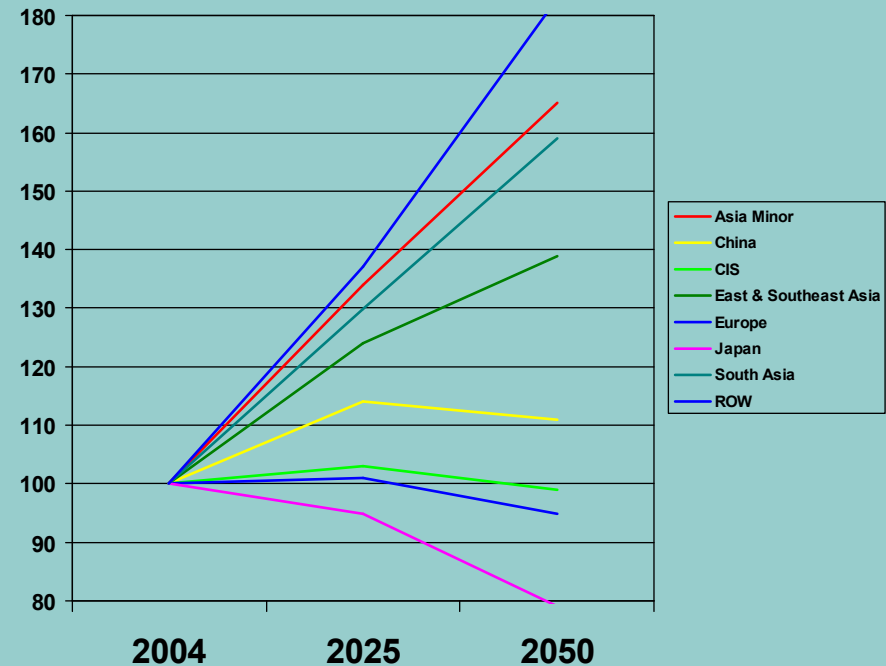


**World Population 2050**  
(9.3 billion)



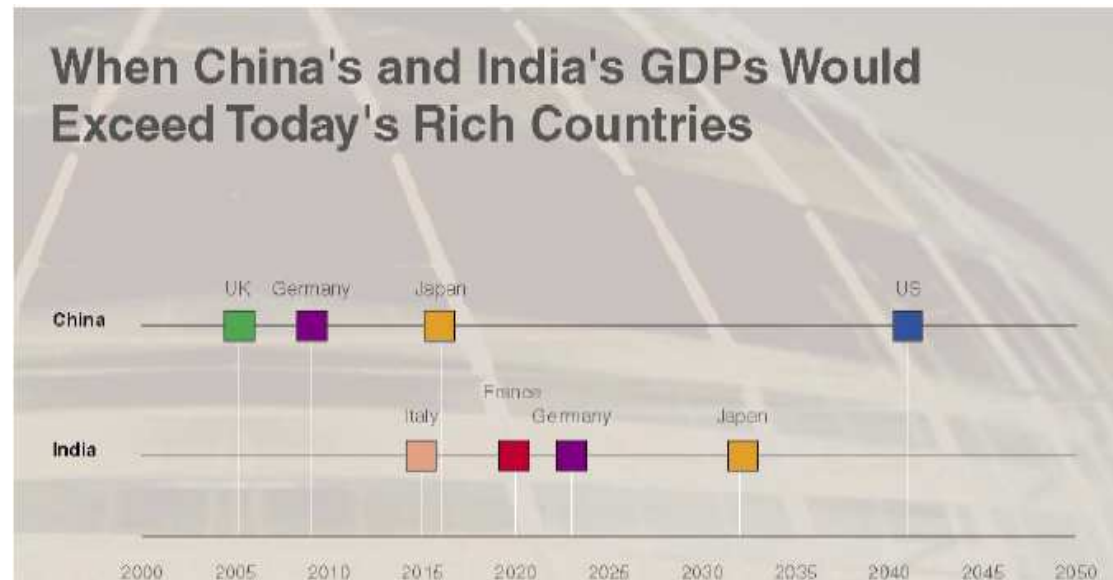
|              |                         |
|--------------|-------------------------|
| ■ Asia Minor | □ China                 |
| ■ CIS        | ■ East & Southeast Asia |
| ■ Europe     | ■ Japan                 |
| ■ South Asia | ■ ROW                   |

**Population Growth 2004-2050**



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

# 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**

## **Eurasian Economic Integration as a Key Potential Driver of Growth**

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



# Energy Trade and Transport

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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

# Energy



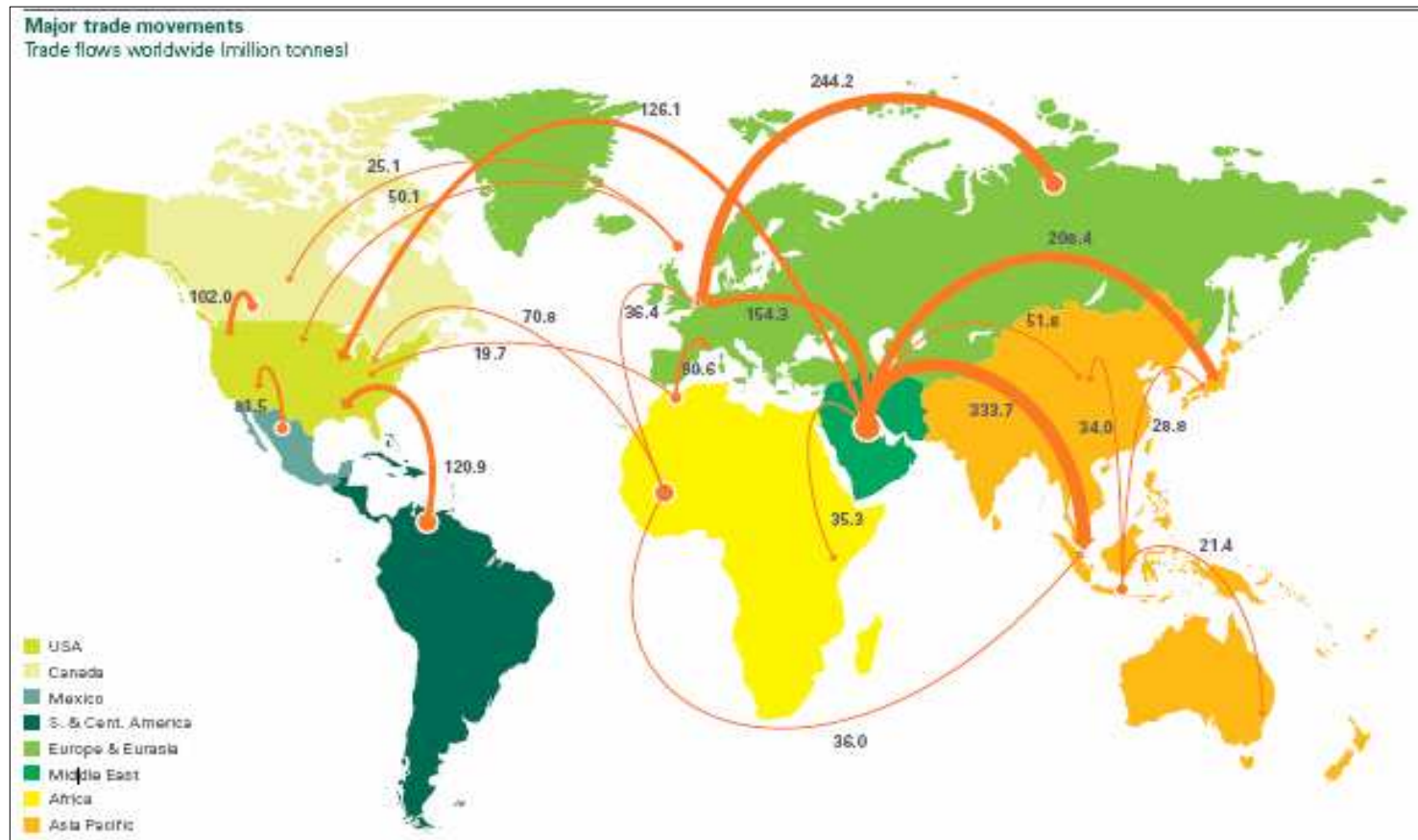
Major Oil and Gas Flows

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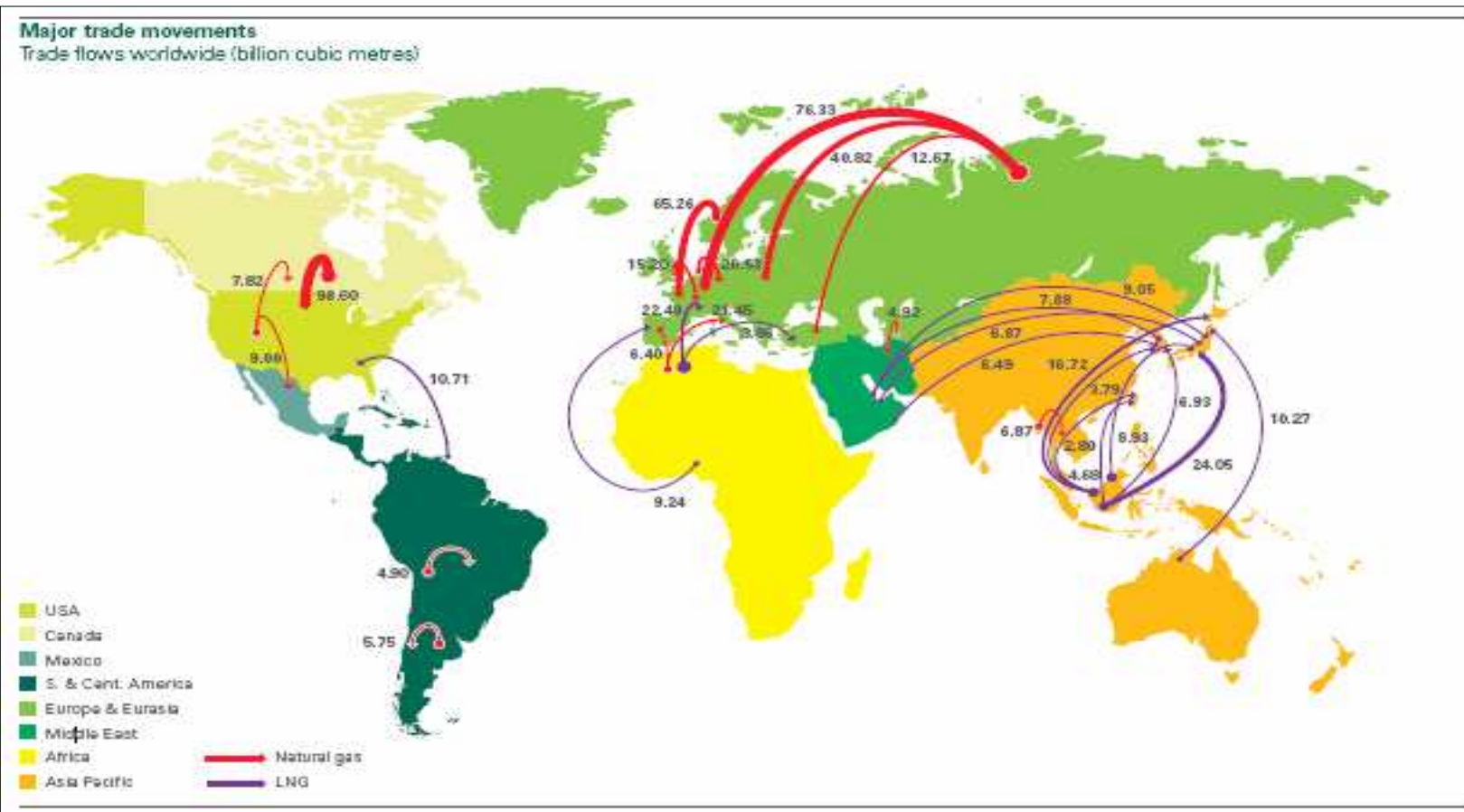
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# Principal Oil Flows in the World (mostly within Eurasia + Arab Peninsula)



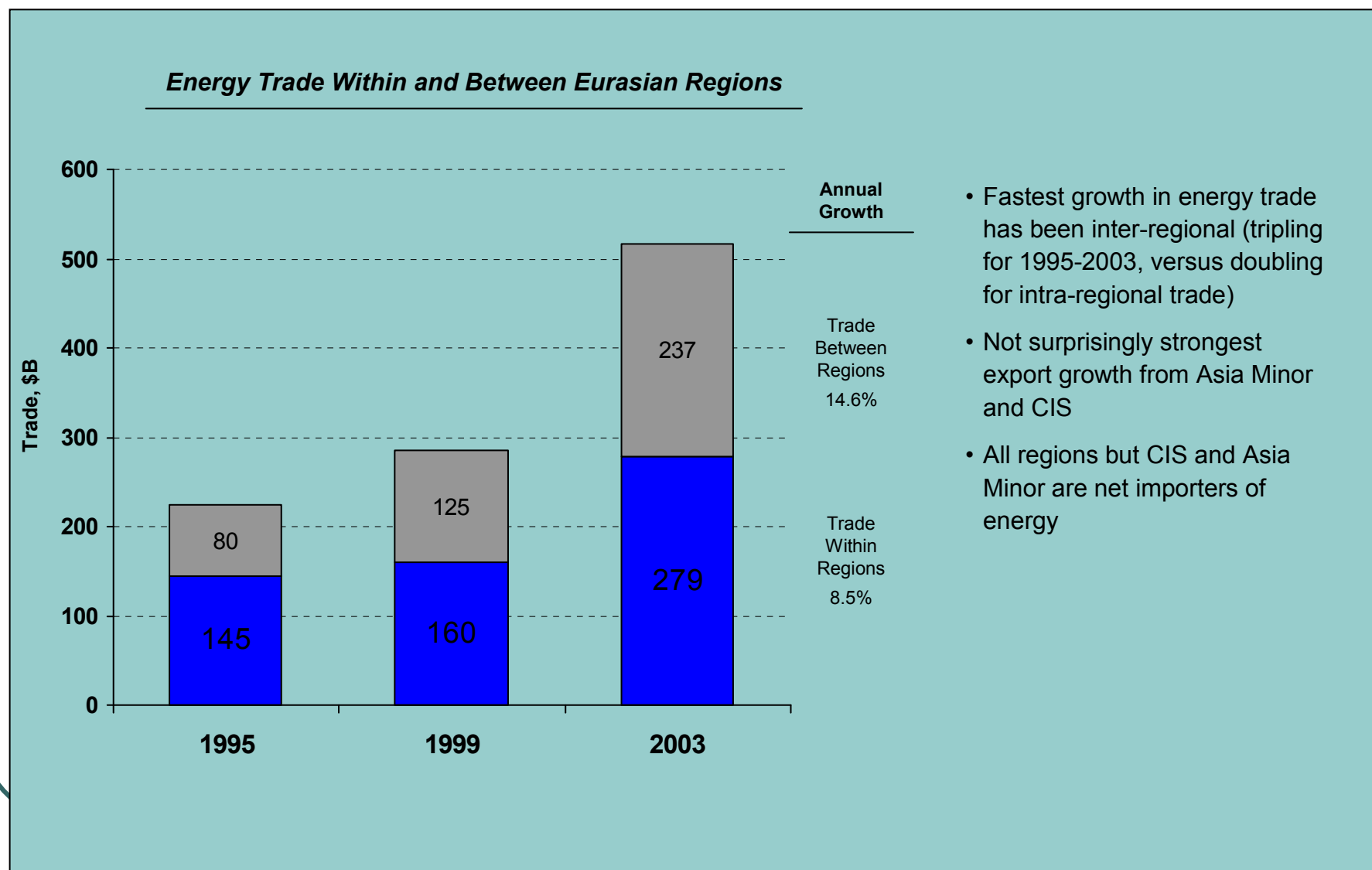
BP 2004 Statistical Review of World Energy

# Principal Gas Flows (no trans-oceanic flows)

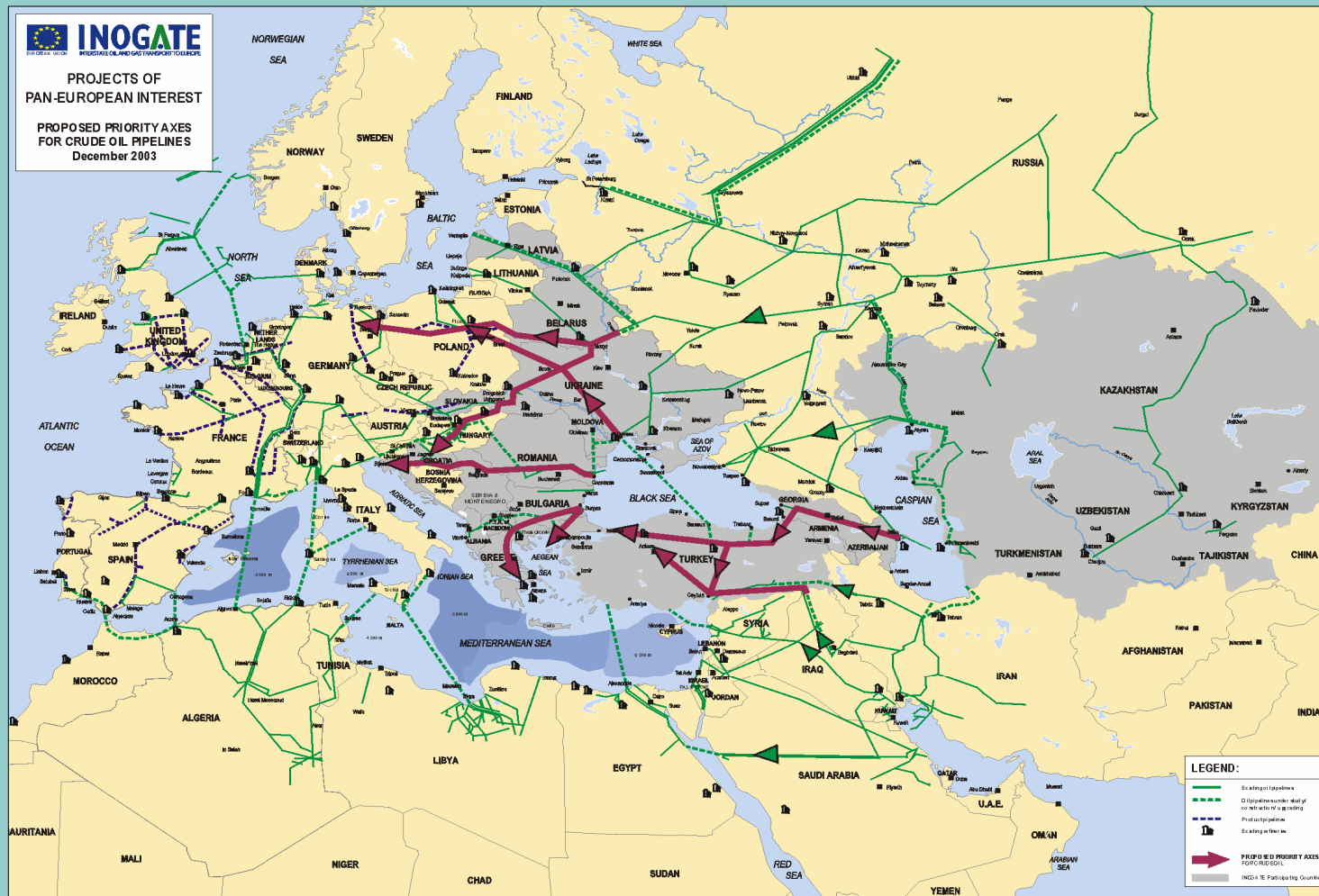


BP 2004 Statistical Review of World Energy

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

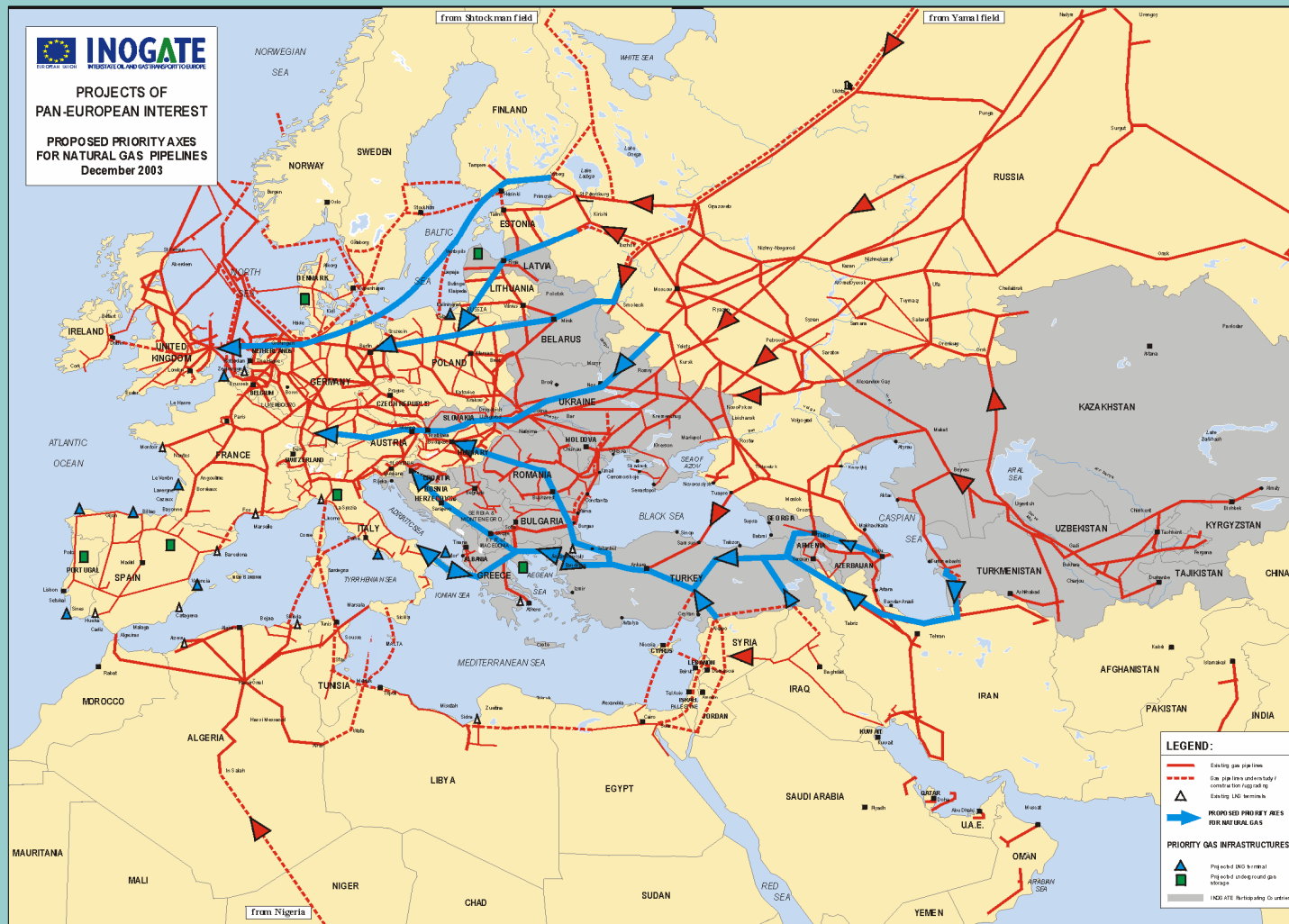


# Oil Transport Routes





# Natural Gas Transport Routes



# Future Energy Flows to the East and South



Major Oil and Gas Flows

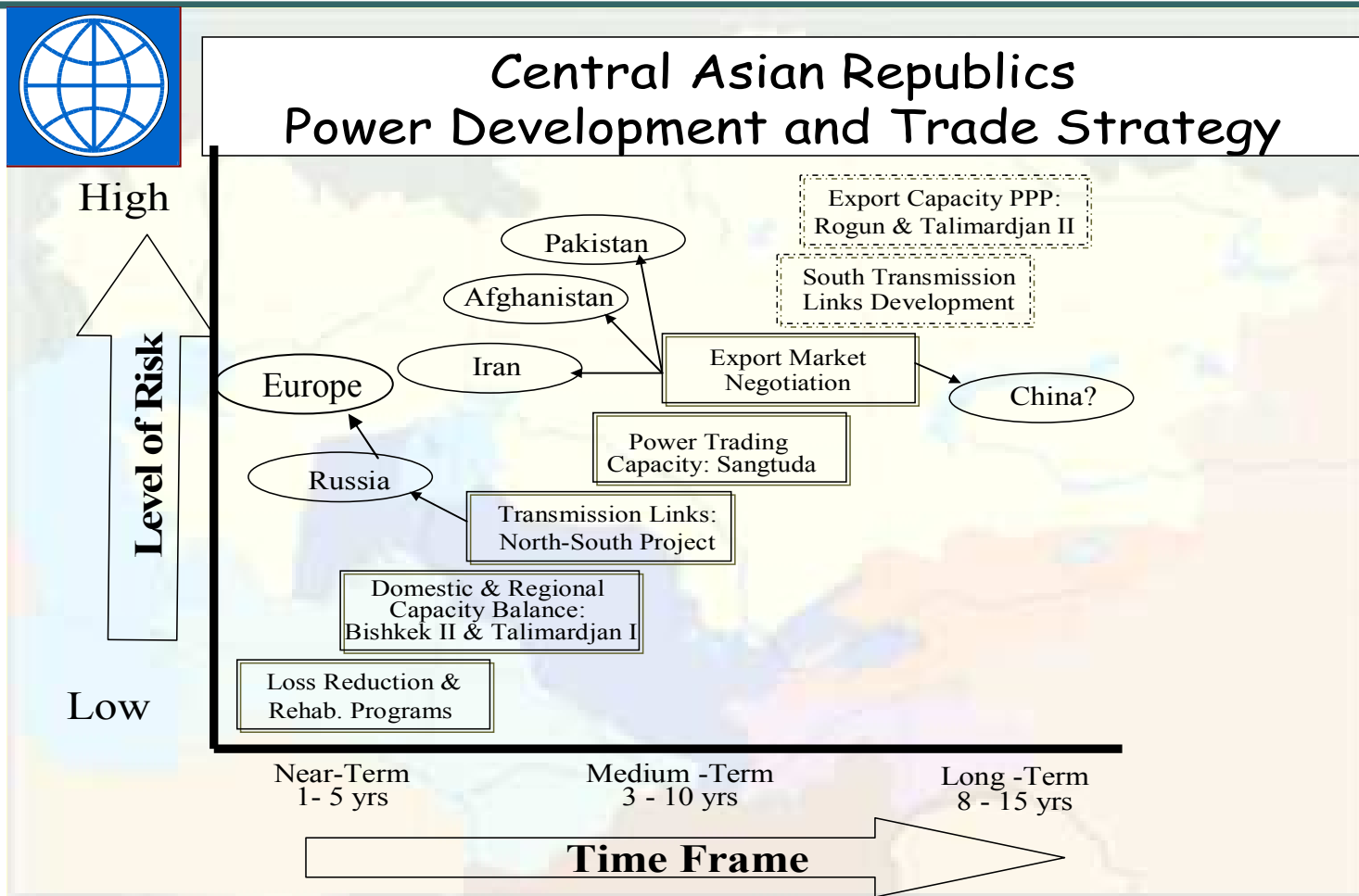
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# Electricity Export Options for Central Asia



# Energy Sector Integration: Conclusions

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- 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

# Non-Energy Trade and Transport

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- Trade 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

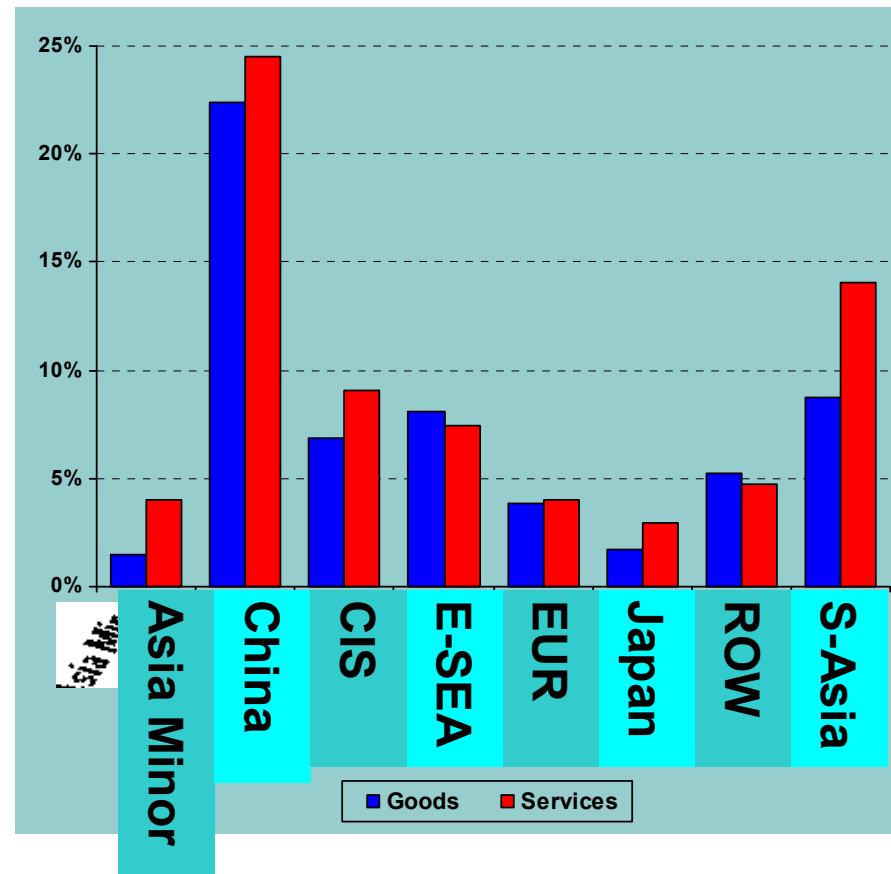
A map of Eurasia and surrounding regions, including parts of Africa, Asia, and Oceania. The map is overlaid with a large black oval labeled 'Eurasia' and several red arrows indicating connections. The arrows point from the 'Eurasia' oval to the Atlantic Ocean, Europe, Russia, China, and the Pacific Ocean. The map also shows various countries and regions, including Europe, Russia, China, India, and Southeast Asia. The map includes latitude and longitude lines, a scale bar, and a copyright notice for the National Geographic Society.



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

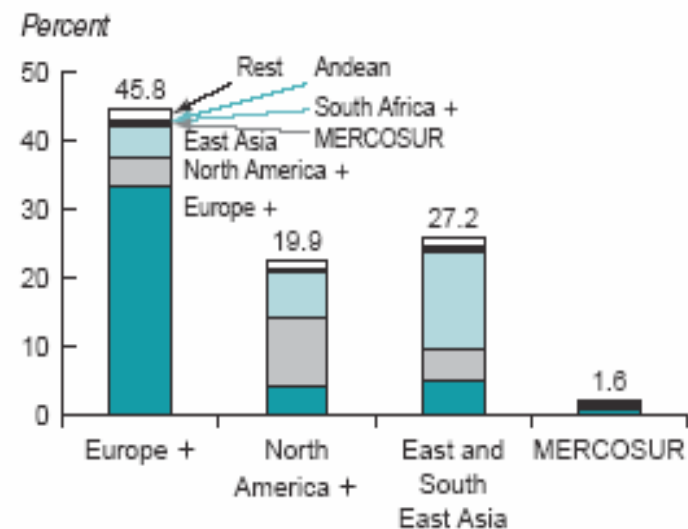
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# Evolving Trade Blocks

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

1990s



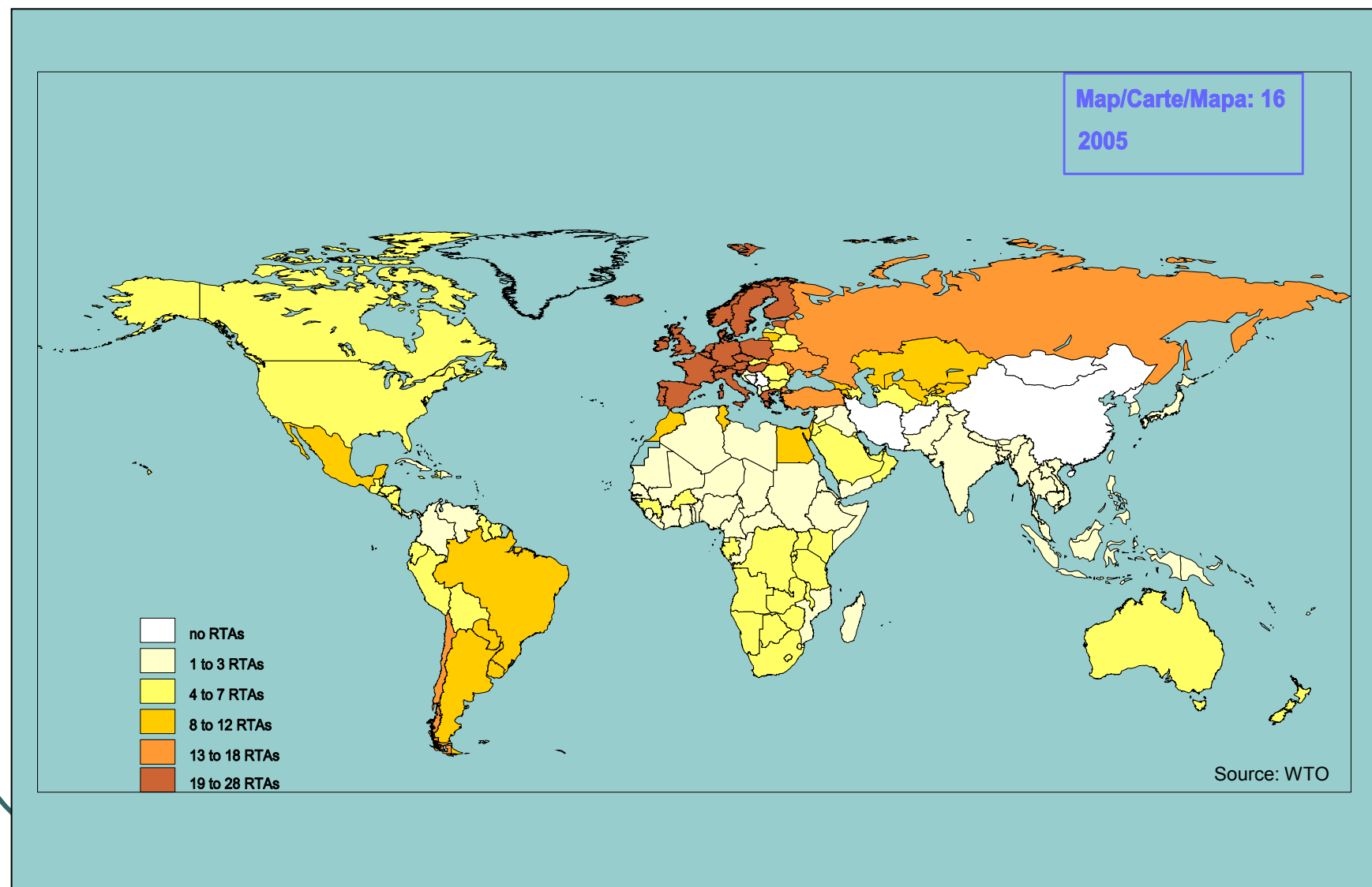
Source: Robinson and Diaz Bonilla 2004.

# Opportunities and Constraints for Eurasian Trade Integration

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- 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

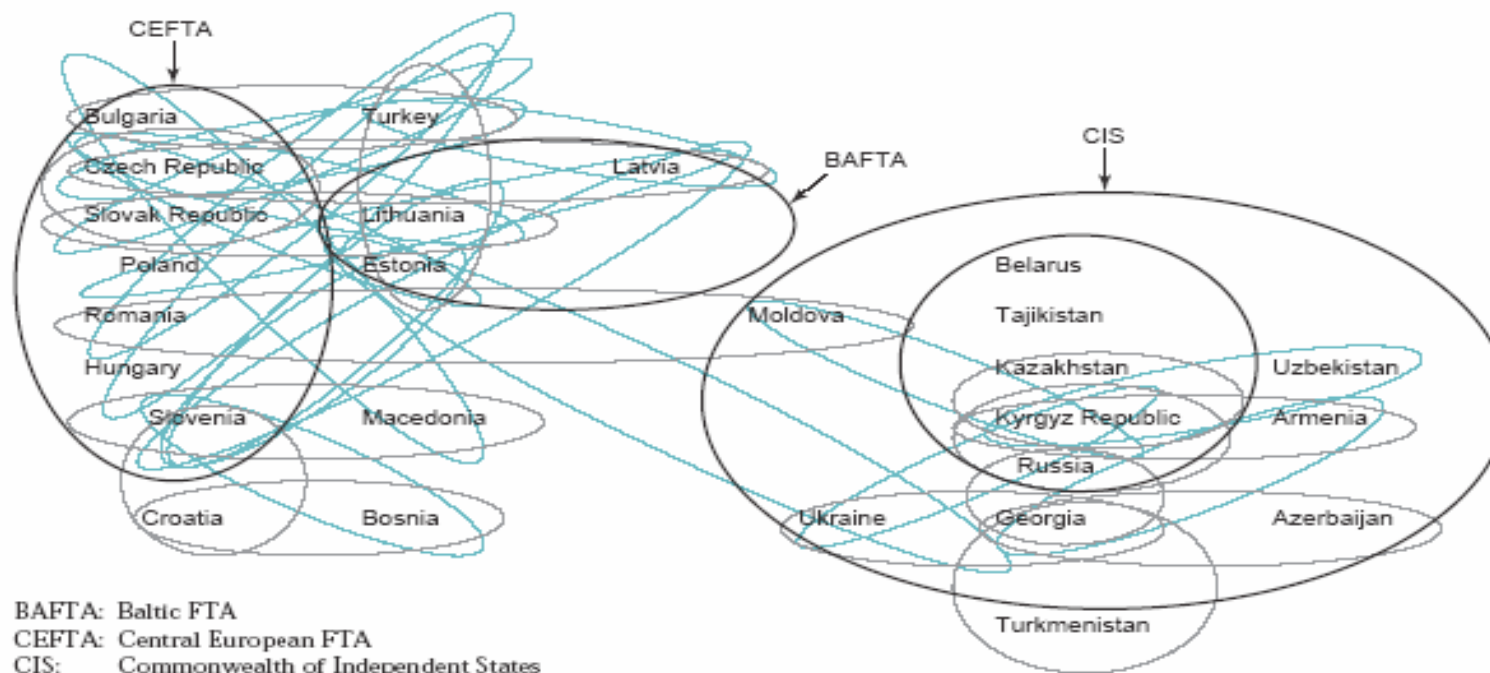




# ECA Spaghetti Bowl (GEP2005)

Figure 2.2 (continued)

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



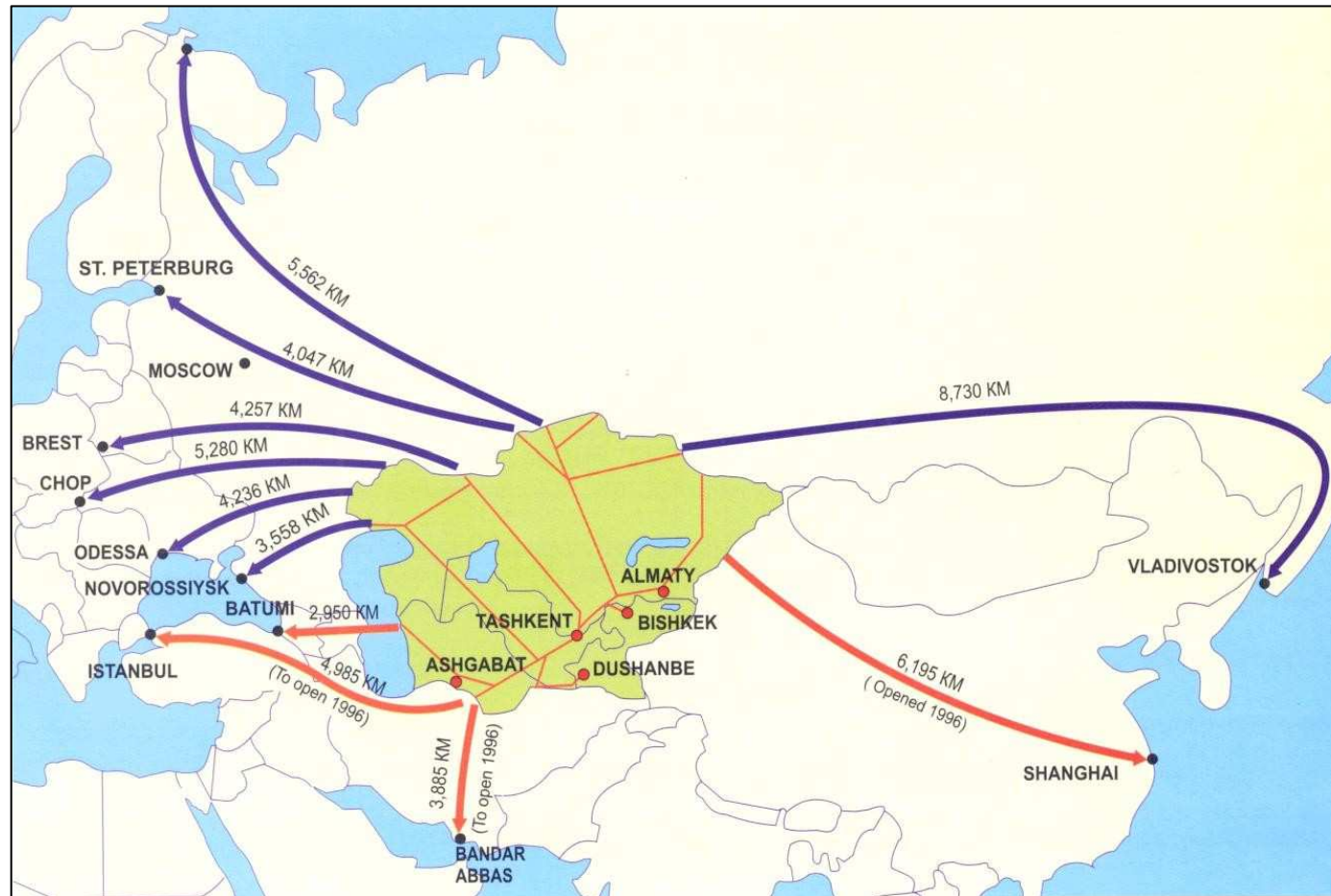
Source: World Bank staff.

# Opportunities and Constraints for Eurasian Trade Integration

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- 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)
  - 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



# Non-energy Trade Integration: Conclusions

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- 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

# Trade in Illicit Drugs

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- 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



**Drug Flows**



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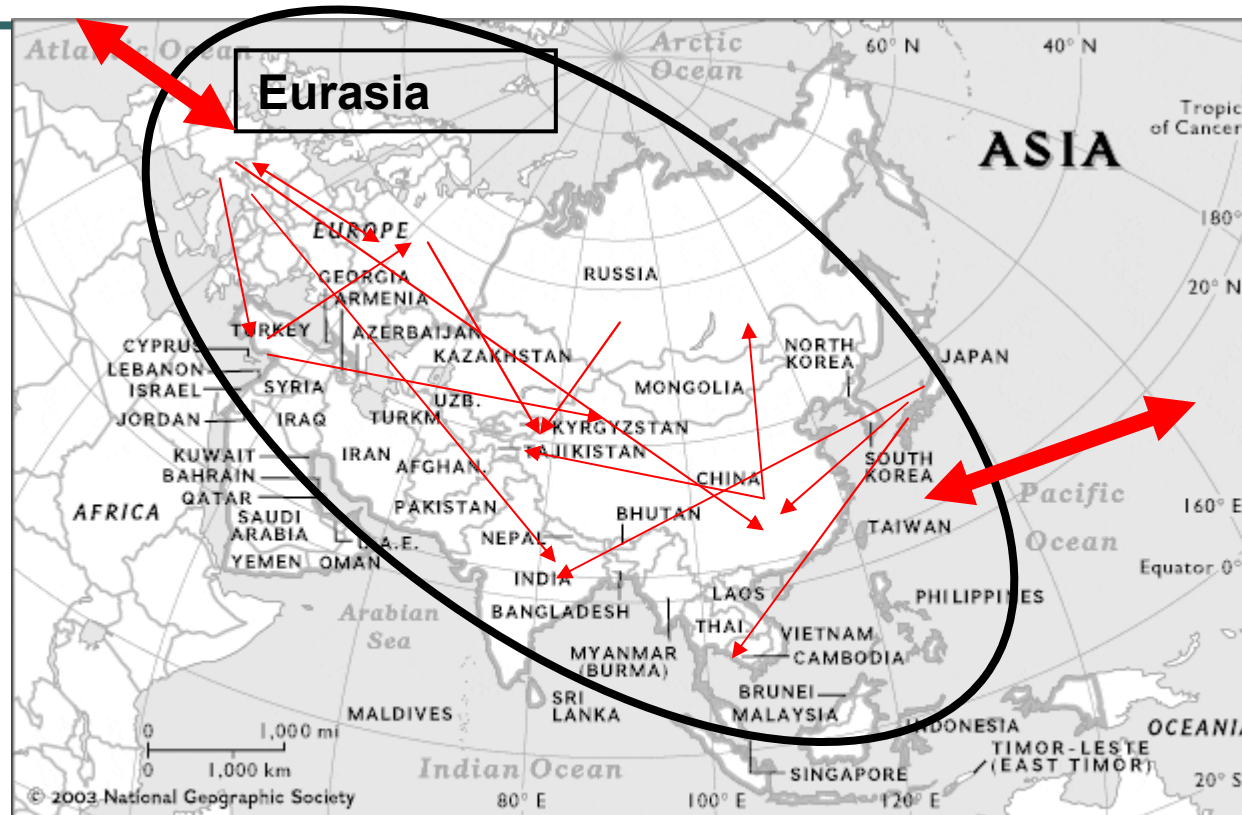
# Investment and Capital Flows

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- 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 energy)
- Continued capital market integration possible, esp. as closely linked to trade integration



# Capital Flows



**Capital Flows**



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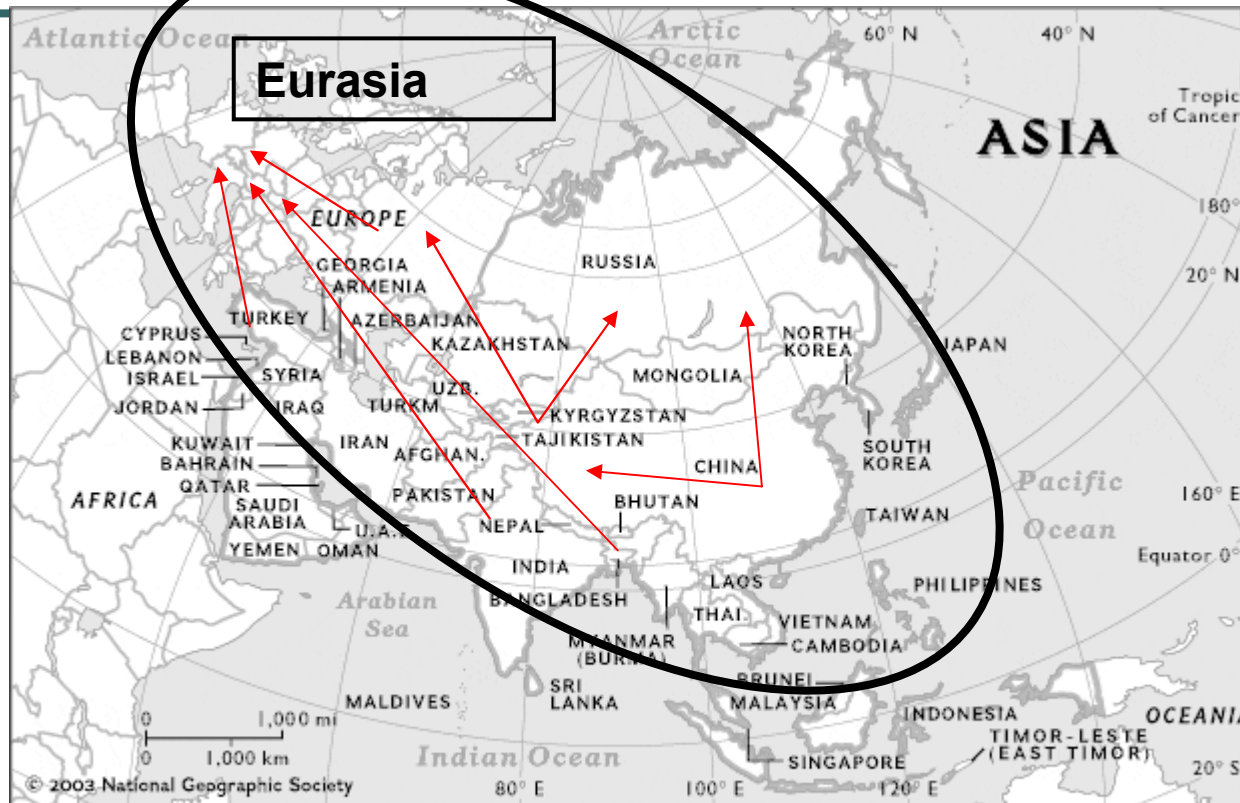


# Migration Flows

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- 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



**Migration Flows**



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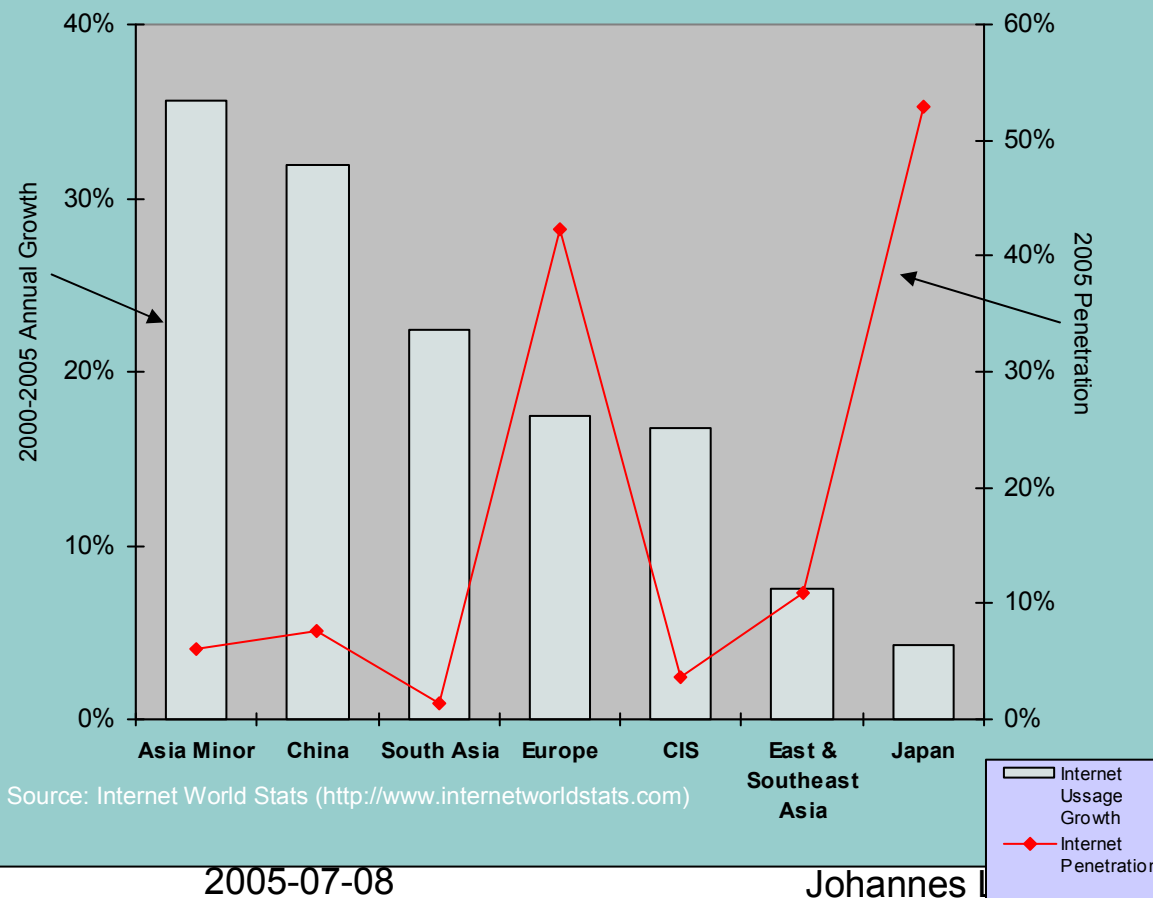
# Communication and Knowledge

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- 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)

*Eurasian Internet Growth and Penetration*



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 grow fastest during this decade

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# Development of Institutional Infrastructure for Regional Cooperation

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- 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

# Key questions for future integration of Eurasia

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- 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
  - 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?

# Tentative Policy Implications

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- Energy sector currently center stage; but other areas matter also – trade, drugs, investment, migration, communication (plus others)
- 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