



Eurasia in the Global Economy: *What are the Forces Shaping the Future of the Region?*

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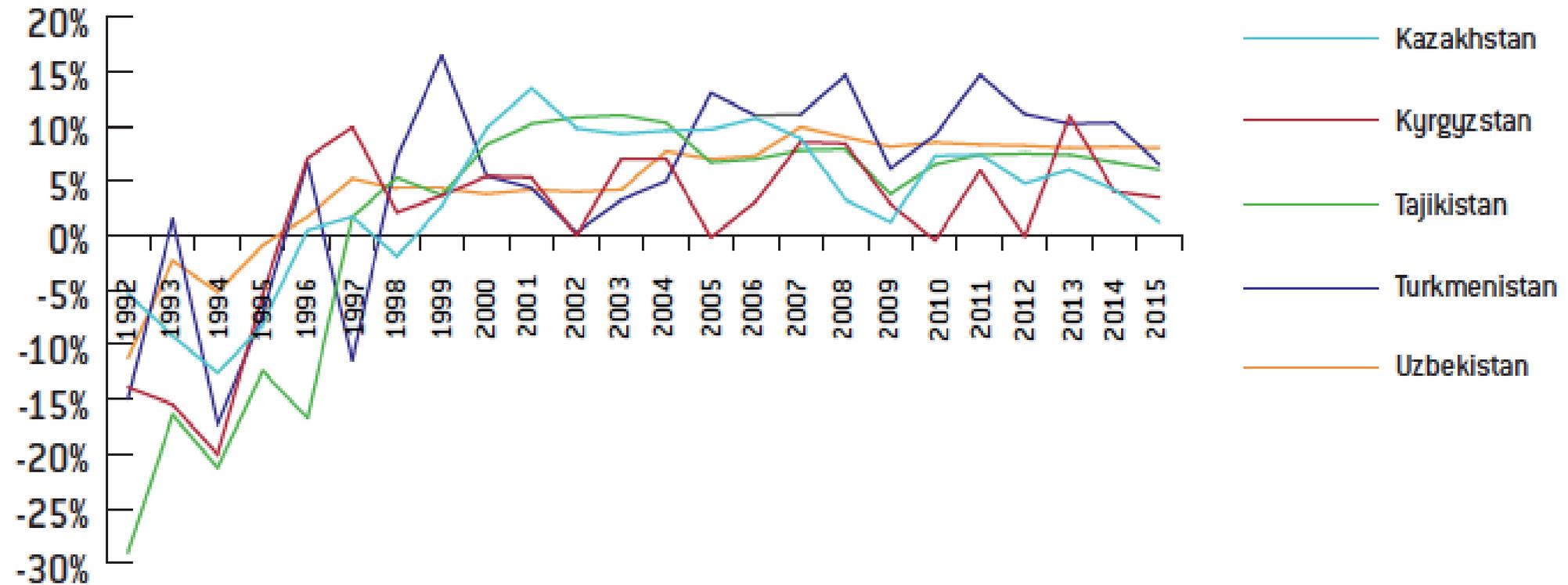
7th China Round Table

Astana | Kazakhstan

Background

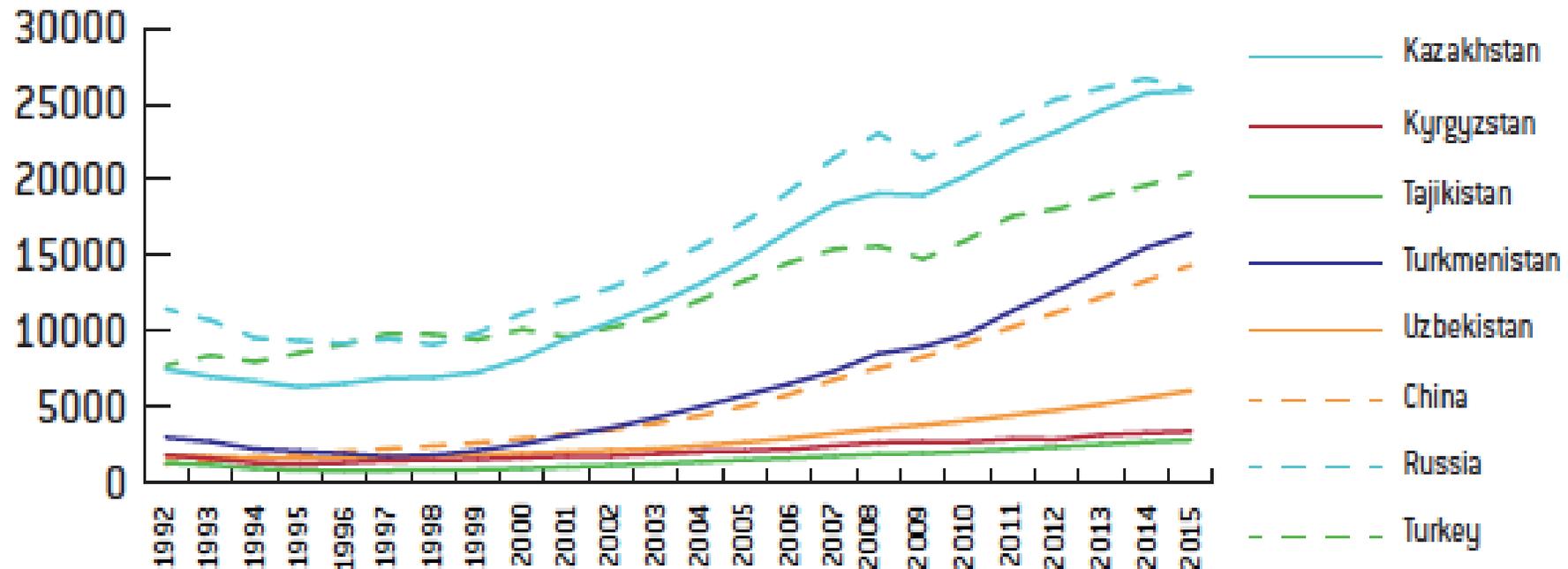
- Defining Eurasia...data challenges
- Transitional friction in the 1990s – an erratic positive/negative growth path, but upward trajectory
-  • Latter half of the 1990s, beginnings of expansion, based largely on natural resources
- Growth positive since 1998, but remains volatile - commodity dependency

Year-on-Year GDP growth, %



Source: Bruegel based on World Bank WDI.

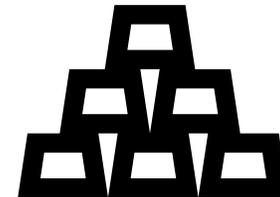
GDP per capita in PPP terms, current \$, 1992-2015



Source: Bruegel based on IMF World Economic Outlook database, October 2016. Note: IMF staff estimates for Turkmenistan (2005-15), Uzbekistan (2014-15) and Tajikistan (2015).

Challenges Facing the Region (1): Commodity Dependency

- **Kazakhstan**: oil, minerals, iron and steel, grain
- **Kyrgyz Republic**: gold, cotton
- **Tajikistan**: aluminum, cotton
- **Turkmenistan**: gas, cotton
- **Uzbekistan**: cotton, gold, gas



Challenges Facing the Region (2): Geography

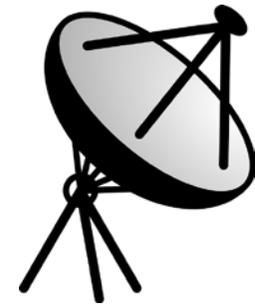
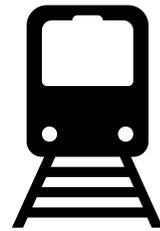
Landlocked countries

- Topography and distance
- Transport can cost up to 60% of the value of manufactured goods imports
- But Central Asia can be a backwater or a crossroads. It is contiguous with:
 - 70% of global population
 - 70% of GDP
 - 75% of global energy resources

Challenges Facing the Region (2): Transport and Communications Infrastructure

- Inadequate transport is very bad for trade and competitiveness
- Considerable progress is being made with a variety of projects and investments:

- Corridors
- Railways
- Pipelines



- Initiatives to join up the region and beyond (e.g. OBOR, ADB [ACD, CAREC], EU)

Newly Built and Planned Pipelines and Railways in Central Asia



Belt and Road Initiative



Policy Challenges (1)

Economic Diversification

Industrialization **strategies** – they all involve trade policy but some are better than others:

- **Import substitution** – inward looking, relies on the domestic market, competitiveness challenges
- **Export-led growth** – no inward bias, learning to compete, but need to nurture the domestic economy too
- **Export processing zones** – a pathway to deeper integration through trade, but only a temporary one
- **Adding value to natural resources** – a path to development but domestic price suppression
- Learning to take advantage of **Global Value Chains**

Policy Challenges (2)

The Key Role of Services

- Services represent 40-60% of GDP in Eurasian economies
- Properly measured, they account for a similar share of exports
- As countries become richer, services become increasingly dominant as a source of value
 - Consumption side – more diverse consumption baskets favour services
 - Production side – demand for backbone services – ICT, transport, financial, distribution, business services – increases disproportionately
- Historical neglect, data challenges, but crucial to competitiveness
- Governments should have explicit policies on services



Pre-Requisites for Successful Diversification

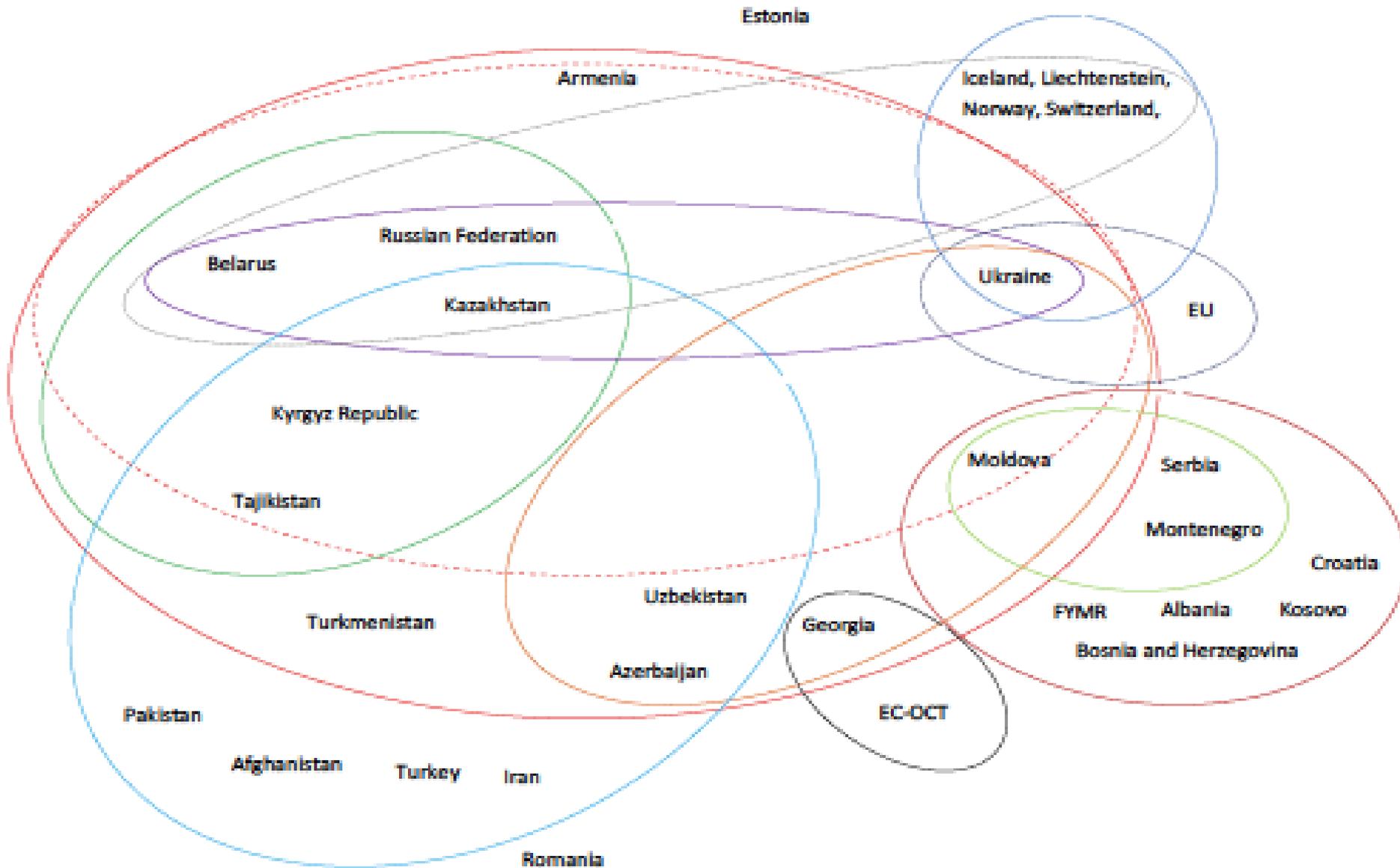
No strategy for diversification, development and growth will work if it is poorly managed

- A clear time-specific strategy
- Technical capabilities
- Good governance
- Systematic monitoring
- A willingness to change course if something is not working (not so much about picking winners, but letting go of losers)

Approaches to Global Engagement Through Trade: Benefitting from Eurasian Regional Cooperation

- 39 free trade agreements (FTAs) implicating Eurasian economies
- 31 of these are within-region bilaterals
- Need to take advantage of regional opportunities BUT:
 - Costs of splintering and overlapping
 - Possible distraction from global engagement

Eurasian Free Trade Agreements



Some Typical Policy Challenges in the Context of Engagement through Trade

- Patchy implementation and enforcement
- Too many exemptions
- Non-tariff measures that become non-tariff barriers
- Excessive complexity (e.g. complex origin requirements)
- Frequent policy changes with inadequate warning and consultation
- Lack of transparency in decision-making and decision-making
- Inadequate monitoring and accountability, leading to lax governance
- Absence of trade facilitation measures:
 - poor coordination among countries
 - cumbersome procedures
 - Unnecessary delays



Global Economic Prospects



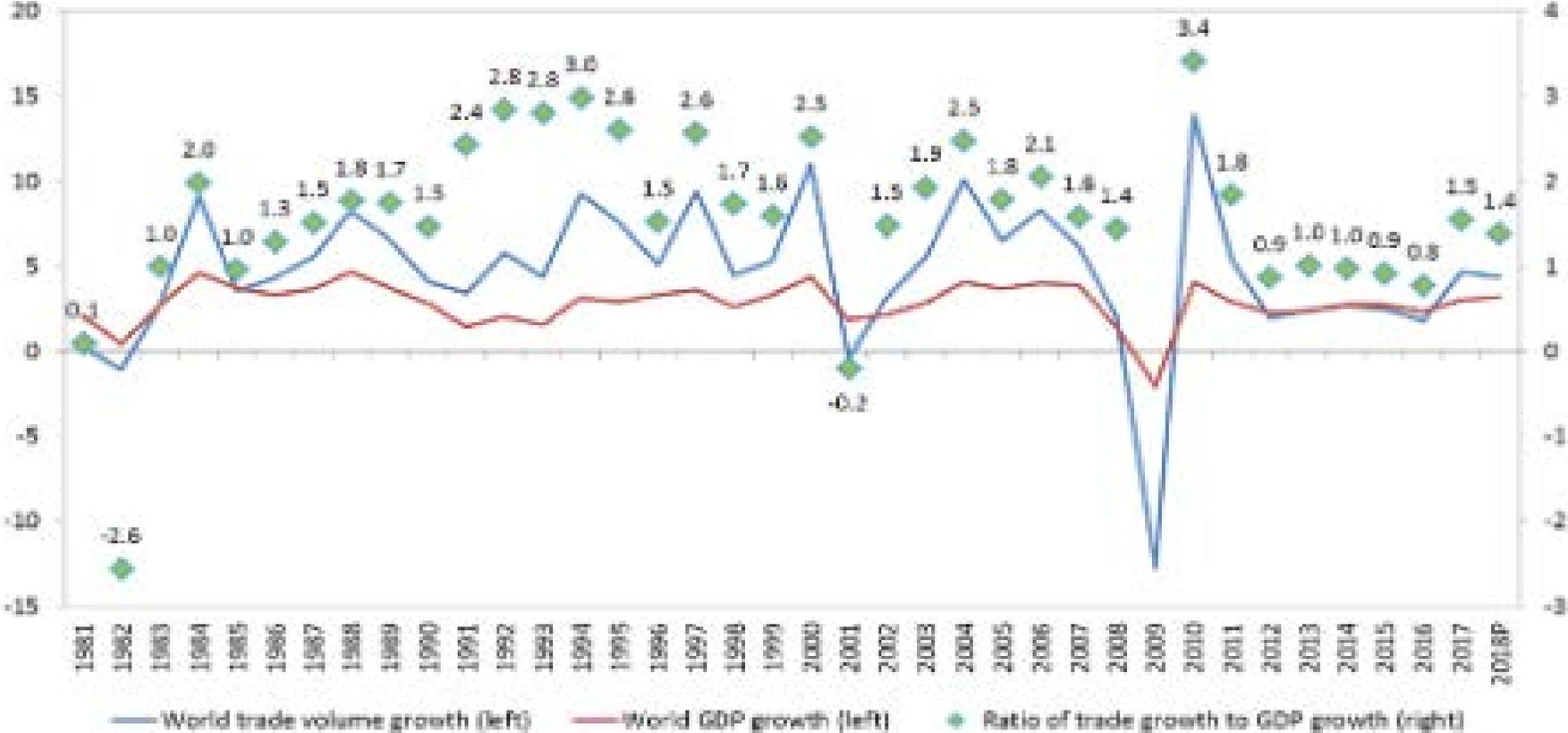
After post-Lehman sluggish growth, things looking better

- GDP growth of 3.2% (2018 forecast)
- World merchandise trade volume of 4.4% (2018 forecast)
- The ratio of trade growth to GDP growth should remain at 1.4 in 2018, down slightly from 1.5 in 2017
- Trade growth should moderate to 4.0% in 2019 even as global GDP growth slows slightly to 3.1%.
- Has trade lost its mojo?



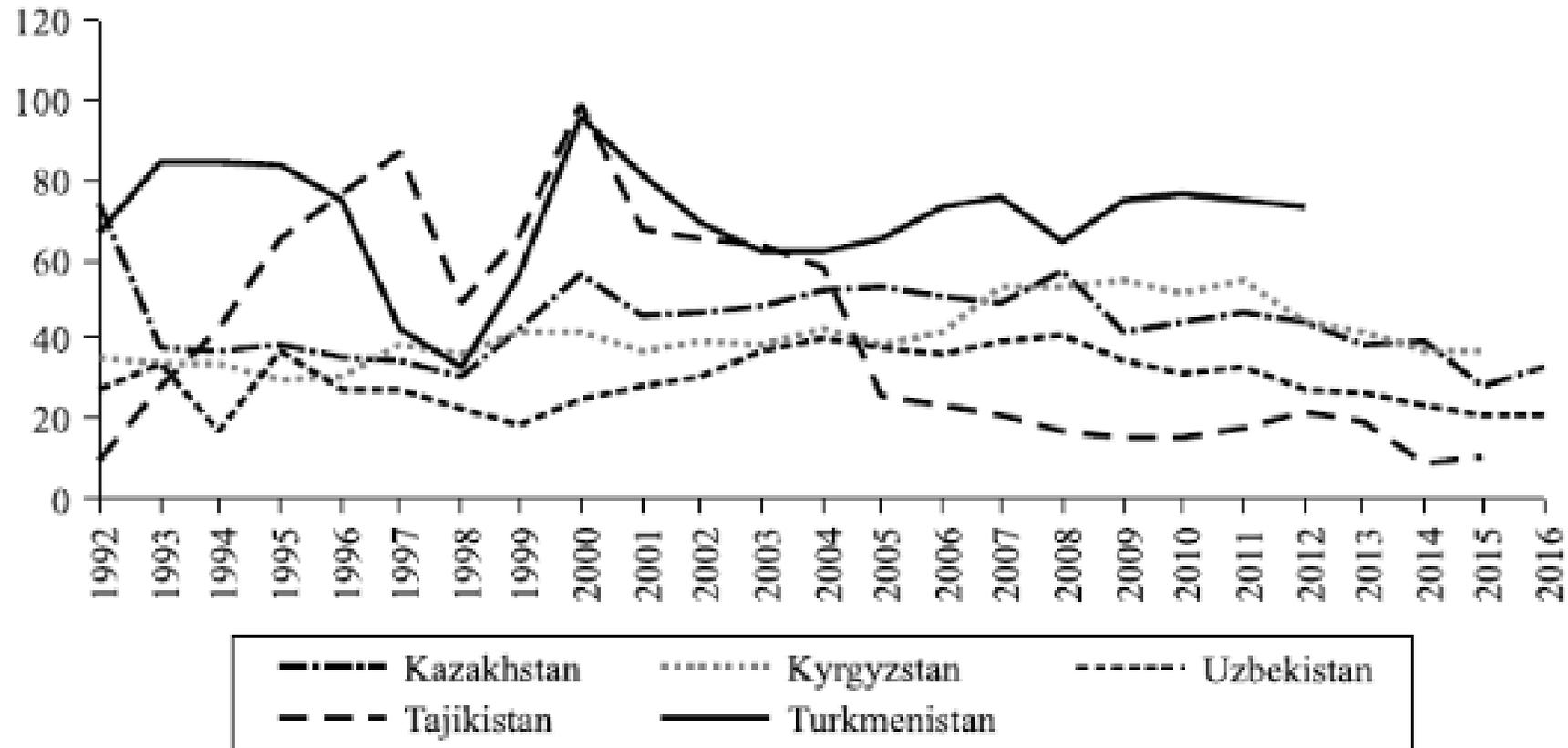
Ratio of World Merchandise Trade Volume Growth to World Real GDP Growth 1981-2018

% change and ratio



Source: WTO and UNCTAD for trade, consensus estimates for GDP.

Exports of Goods as Percentage of GDP 1992-2016



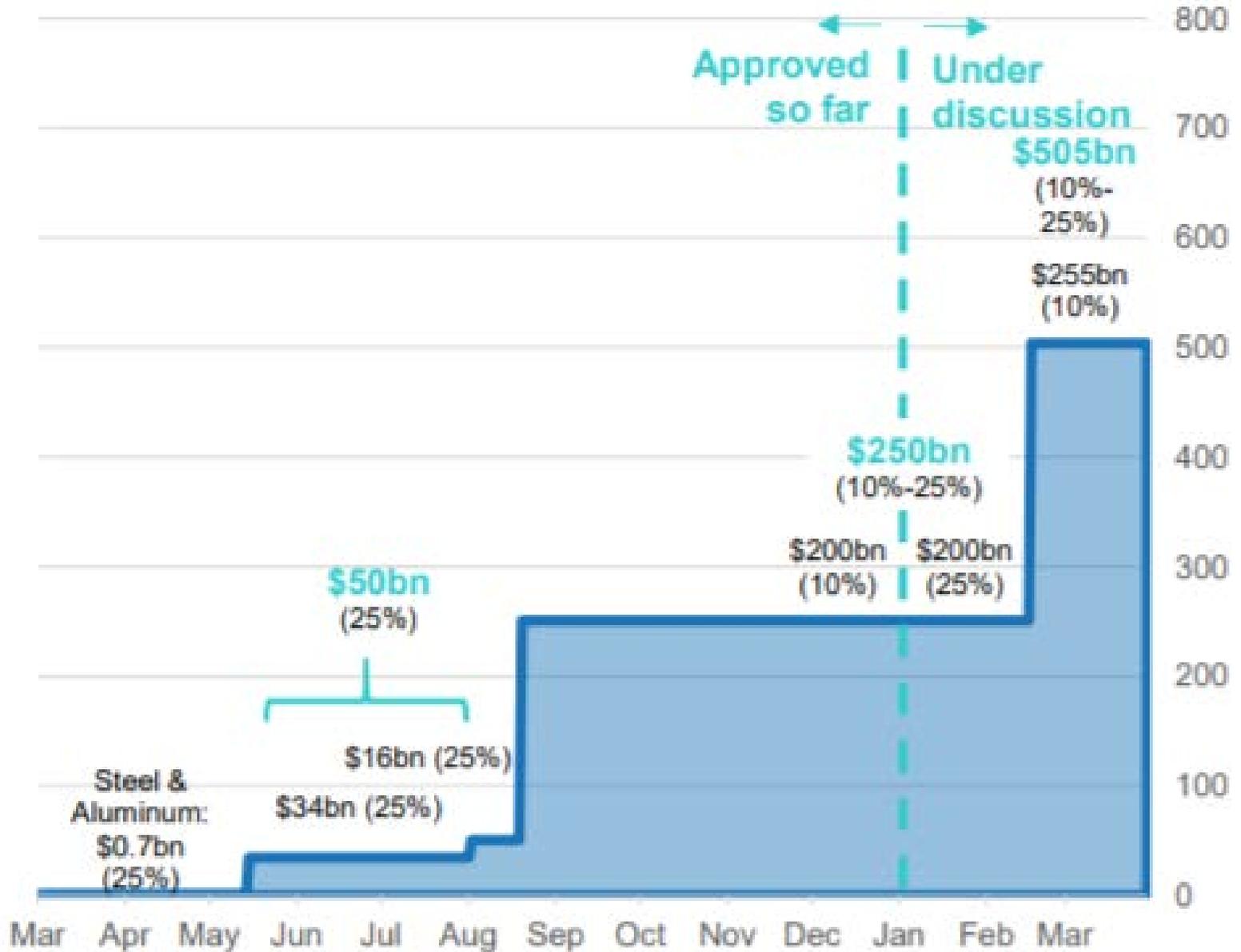
Source: IMF Direction of Trade Statistics, <http://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85&sId=1409151240976>

Some Downside Risks to Forecasts

- Recession in US
 - Policy uncertainty
 - Lack of room for stimulus –monetary and fiscal constraints
- China: Disorderly deleveraging versus Keynesian stimulus
- Stronger dollar and sell-off of emerging market assets
- Possible return of Eurozone crisis – debt and some Euroskepticism
- Trade war

Dimensions of a Trade War

- Uncertainty
- Retaliation
- GVC disruption
- Less investment
- Reduced growth, knock-on for commodity prices
- Adjusting in and out



Source: BBVA Research

Thank You