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

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Summary

• Regional economic context

• Regional policy context

• Global economic prospects
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 $, 1992-2055

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

Source: Bruegel
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

Source: WTO and UNCTAD for trade, consensus estimates for GDP.
Exports of Goods as Percentage of GDP 1992-2016

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
• Les investment
• Reduced growth, knock-on for commodity prices
• Adjusting in and out

Source: BBVA Research
Thank You