

Central Asia/CAREC's Role in Eurasian Integration

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One Eurasia or Many

Great book, raising many thinking points for CAREC.

Libman & Vinokurov distinguish between:

- Regionalism – top-down state projects (EU, EAEU, ASEAN)
- Regionalization – bottom-up activities
 - mainly private sector but can be supported by government connectivity projects (TRACECA, BRI)
- They also discuss meso-level integration & mega-regional trade agreements (APEC, TP, RCEP) that often cover “poorly defined regional spaces”.

I will argue that

- regionalism in the 20th. century sense of a preferential trading arrangement (customs union or classic FTA with zero internal tariffs) is outdated.
- Eurasia is becoming more economically connected (regionalization)
- A desirable CAREC trade agreement will facilitate such connectivity
 - and it should draw on the experience of the mega-regionals

Are 20th. century regional agreements relevant to CAREC?

regionalism in the 20th. century sense of a preferential trading arrangement (customs union or FTA) is outdated.

1. Preferential access to the main trading nations' markets is almost worthless because applied MFN tariffs are low (<5%):

EU 1.7%, USA 1.6%, Japan 2.5%, China 3.4%, Canada 1.5%, Australia 0.9%

(Weighted average applied tariffs 2018, World Bank database)

2. Firms in competitive economies want access to world-best inputs, without paying a tax on those imports → low tariffs & low costs of international trade

- especially true for participants in global value chains
- **Lesson for CAREC** = a trade agreement should not be about gaining preferential access to export markets; it should be about helping producers gain access to best quality/price inputs

Connectivity: soft and hard infrastructure

In 1990s & early 2000s high trade costs were ascribed to landlockedness, but since c.2005 greater emphasis has been placed on bureaucratic & other obstacles (highlighted by very low rankings in *Doing Business* Trading across Borders) and since 2010 by CAREC's CPMM reports.

- Even where links to neighbors, except Russia, existed, they were little used
 - Kazakhstan-China rail link opened in 1990; Turkmenistan-Iran rail link opened 1997
- pipelines improved connectivity for oil&gas exports in the 2000s, but product-specific
 - 2006-9 Turkmenistan-Uzbekistan-Kazakhstan-PRC gas pipeline = first major example of cooperation to improve connectivity

A major change has been creation of China-EU Landbridge rail services

- in 2011 and 2012 individual trains connected Sichuan Province and Chongqing Municipality with Europe
 - attractive to electronics firms in Western China (e.g. HP, Acer and Foxconn) supplying EU markets and to EU firms shipping parts to their operations in Western China (e.g. VW, Audi & BMW).
- **regular rail service between Chongqing and Duisburg was established in 2013** (3 a week in 2016; daily in 2018),
 - In 2012-15 routes from Yiwu, Chengdu, Wuhan, Zhengzhou and other Chinese cities to Europe were also trialed.
- rail freight between China and Europe ↑ from virtually zero before 2011 to over 300,000 containers in 2019,
 - a virtuous circle: market-driven as traffic ↑ more services were provided (part loads, refrigeration, hub connections, etc) → ↑ demand for rail services

Global Value Chains

Initial Landbridge customers were car and electronics companies linking their Asian and European supply chains

Crucial prerequisite for GVCs is ease of international trade

- relevant costs = money, time and uncertainty
 - firms in GVCs are willing to pay for faster, reliable delivery

COVID emphasized the advantages of rail

- maritime shipping disrupted by COVID, leaving ships in the wrong place
 - highlighting the inherent unreliability of ocean shipping that is subject to weather, congestion (e.g. at Suez Canal) and piracy
- air transport disrupted by reduced flights
- 547,000 containers shipped between China and EU by rail in 2020 and number is ↑ in 2021

Volume of Traffic on China-EU-China Container Trains, 2015-20

Year	Number of twenty-foot equivalent containers (TEUs)
2015	46,000
2016	104,500
2017	175,800
2018	280,500
2019	333,000
2020	547,000
2021 (to 15 June)	306,500

Source: Eurasian Rail Alliance at www.utlc.com (accessed 15 June 2021)

The Role of Governments

Although the development of the Landbridge was primarily a bottom-up response to private sector demand, with substantial private sector response (by freight forwarders etc), there has been some top-down support:

- Cooperation between national rail companies
- National trade facilitation measures – some unilateral some within CAREC or bilateral FTAs/EAEU
- China's Belt & Road Initiative
 - Important for commitment of potential project finance, as well as signal of PRC commitment
 - BRI contributes to linking Central Asia to other BRI partners, notably Pakistan

But Silk Road Economic Belt was announced in 2013 **after** regular Chongqing-Duisburg services began and formal launch of BRI was in May 2017 by which time China Express had services to Europe from 27 cities

China Railway Express route map, May 2017



Rethinking CAREC Prospects after COVID

The Landbridge rail services transit Central Asia without carrying freight to or from the region. However:

- improved hard and soft infrastructure could provide a window of opportunity for Central Asian countries seeking to diversify their export bundles.
 - which countries take advantage of the window will depend on their success in implementing economic reforms to reduce the costs of international trade, and of doing business in general.
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- A desirable CAREC trade agreement will facilitate such connectivity
 - and that should draw on the experience of the mega-regionals

The CAREC Way – focus on TF not CU

The 2019 *CAREC Integrated Trade Agenda 2030* (CITA) emphasized the need to enhance trade and improve the region's integration into the global economy by building on past CAREC achievements in fostering mutual trust and undertaking collective action. The CITA comprised three pillars:

1. Trade expansion through adoption of more open trade policies and deepening customs cooperation, including trade facilitation (TF) and improved logistics, and avoiding trade-distorting measures (eg CU) and protectionist tendencies,
 2. Greater diversification through supporting reforms and linking CAREC countries with global and regional value chains,
 3. Stronger institutions to better coordinate evidence-based policymaking and capacity of government agencies.
- The CITA (2019, 3-6) opens with a summary of CAREC countries' below-average standards in logistics and trade facilitation measure. It cites evidence of highly restrictive policies towards air passenger transport, auditing, banking, insurance, communication and professional services, and stresses that ***"Innovation measures are needed to take advantage of opportunities of technology diffusion and digital trade"***.
 - The CITA concludes with an Appendix on potential challenges and mitigating factors, which acknowledges that involving participation of numerous stakeholders across eleven countries, ***"the likelihood of one standardized approach and implementation for all activities is not high"***.
 - **Institutions:** The Regional Trade Group is the lead coordinating and consultative body with the Customs Cooperation Committee remaining responsible for customs-related issues, and both bodies cooperating with the CAREC Institute, international organizations (e.g. the WTO and WCO), international standard-setting bodies, and development partners.
 - **Initial implementation** of the first CITA pillar in 2019 was positive, especially in relation to WTO accession and implementation of the WTO Trade facilitation Agreement. However, progress was disrupted in 2020 by the COVID-19 pandemic with cancellation or moving online of meetings.
 - **Knowledge provision:** Virtual workshops and seminars were organized on services and, appropriately, paperless trade and e-commerce that included inputs from the CAREC Institute and information on global standards.

The Megaregional Agreements as Blueprints

Megaregionals have emerged as the response to the WTO's inability to extend trade rules in existing areas (WTO+) and to agree on rules for new areas (WTO-X).

In 1990s, Asia Pacific Economic Cooperation (APEC) provided a first example of **open regionalism** – open to countries sharing common goals, e.g. unilateral reduction of tariffs. However, APEC's voluntary processes seemed toothless in the Asian Crisis of 1997/8.

- During the 2002 APEC summit, New Zealand, Singapore and Chile began negotiations on a comprehensive, forward-looking trade agreement that set high-quality benchmarks on trade rules
 - the agreement entered into force in 2006 (also included Brunei).
 - The agreement was not about tariffs, which are at or close to zero in all four countries.
 - It was the first twenty-first century example of open regionalism, non-discriminatory and open to new signatories willing to accept the elements that went beyond WTO commitments.
- In 2008, Australia, Peru, the USA and Vietnam opened negotiations to extend the P4. They were joined by Malaysia in 2010, Mexico and Canada in 2012, and Japan in 2013. The twelve countries concluded the TransPacific Partnership (**TPP**) negotiations in 2016.
 - The negotiations were lengthy because the TPP agreement was far-reaching, including tariff and product-specific trade rules, customs administration and trade facilitation, investment, trade in services, temporary entry for businesspeople, telecommunications, e-commerce, public procurement, competition policy, state-owned enterprises, intellectual property, labor, environment, small and medium-sized businesses, regulatory coherence, transparency and anti-corruption, and dispute settlement
 - The TPP never entered into force because the USA withdrew in January 2017 before ratification.
 - The remaining eleven countries agreed on a very slightly modified Comprehensive and Progressive Agreement for Trans-Pacific Partnership (**CPTPP**)

RCEP, CPTPP, EU trade agreements

The Regional Comprehensive Economic Partnership Agreement (RCEP) was signed in November 2020 between the 10 ASEAN countries, Japan, Korea, PRC, Australia and New Zealand.

Similar to TPP – unsurprising – 7 countries signed both agreements

- RCEP paid more attention to trade in goods (tariffs, rules of origin)
- RCEP generally weaker on WTO+ and WTO-X topics
- RCEP's 20 chapters have similar coverage to TPP, with some topics omitted (e.g. labor, environment, corruption)
- The CPTPP's structure is similar to TPP with small changes (the CPTPP agreement is only 9 pages long).
- EU trade agreements are generally similar to TPP structure, e.g. CETA (the EU-Canada Agreement) has 30 chapters.

Megaregional Signatories' average *ad valorem* applied tariffs.

CPTPP		RCEP			
Canada	1.5%	Australia	0.9%	Cambodia	9.8%
Chile	0.5%	Brunei	0.0%	PRC	3.4%
Mexico	1.2%	Japan	2.5%	Indonesia	2.0%
Peru	0.7%	Malaysia	4.0%	Korea	4.8%
		New Zealand	1.4%	Laos	0.7%
		Singapore	0.2%	Myanmar	1.7%
		Vietnam	4.4%	Philippines	2.1%
				Thailand	3.5%

Source: World Bank database at <https://data.worldbank.org/indicator/TM.TAX.MRCH.WM.FN.ZS> (accessed 1 December 2020)

Notes: weighted average based on bilateral trade in 2018 at HS 6-digit level, except New Zealand 2017, Cambodia and Malaysia 2016, Laos and Thailand 2015.

Chapter Structure of TPP compared to RCEP

TPP	RCEP	TPP	RCEP
1. definitions	1	16. competition policy	13
2. market access for goods	2	17. SOEs & monopolies	
3. rules of origin	3	18. intellectual property	11
4. textiles & apparel		19. labor	
5. custom administration	4	20. environment	
6. trade remedies (AD&CVD)	7	21. cooperation & capacity building	15
7. SPS	5	22. competitiveness & investment facilitation	
8. TBTs	6	23. development	
9. investment	10	24. SMEs	14
10. services	8	25. regulatory coherence	
11. financial services	8	26. transparency & corruption	
12. temporary migration	9	27. administration & institution provision	18
13. telecoms	8	28. dispute settlement	19
14. e-commerce	12	29. exceptions & general provisions	17
15. public procurement		30. final provisions	20

Note: RCEP's 20 chapters have similar coverage to TPP, with slightly different ordering, a single chapter for services, and omitting 4, 17, 19, 20, 22, 23, 25 and 26. The CPTPP's structure is similar to TTP with small changes.

Relevance to CAREC

“Meso-level regionalism can emerge as a web of interconnections and agreements between individual countries and regional organizations, if all these organizations are willing to contribute to the overall integration agenda or idea.” (Libman & Vinokur, page 28)

Modern trade agreements are not mainly about tariffs nor are they discriminatory.

They set rules and standards in areas where the WTO has been unable to go due to the need for consensus.

An interconnected web is desirable so that traders can easily recognize the rules.

Note 1: CPTPP is global not regional – the UK applied to join this month → signatories on every continent except Africa & Antarctica.

Note 2: CAREC members could use a similar chapter structure to RCEP, with as much commitment on each topic as members can agree on.



THANK YOU

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Any comments welcomed