

CI/ADB Webinar on Euro-Asian Economic Integration

22 June 2021

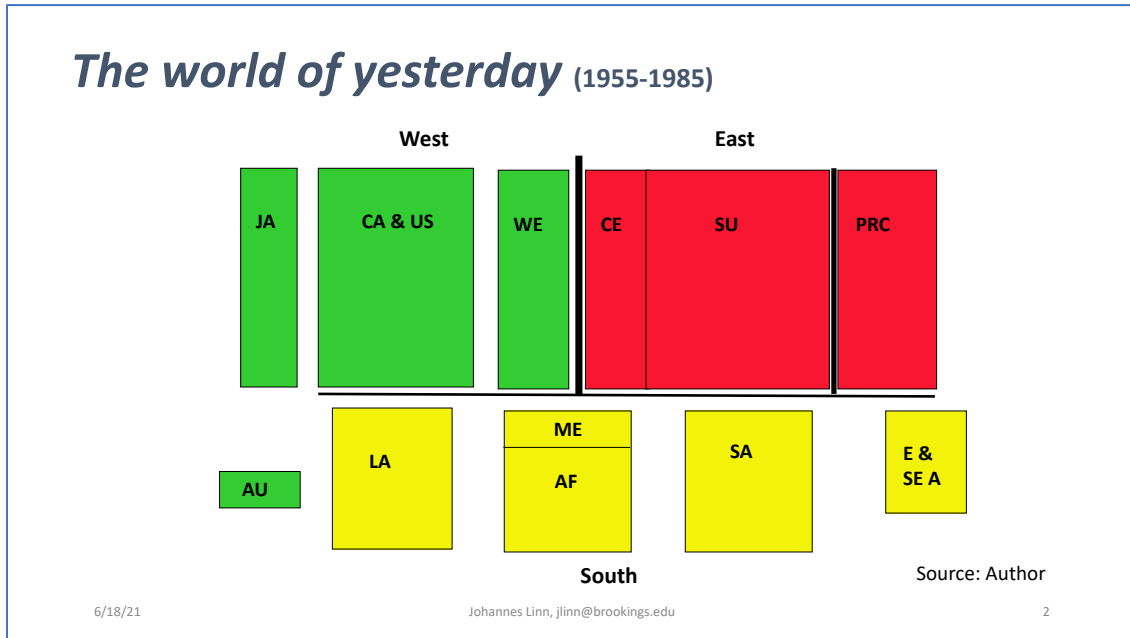
Johannes Linn, The Brookings Institution

Euro-Asia Economic Integration A historical perspective

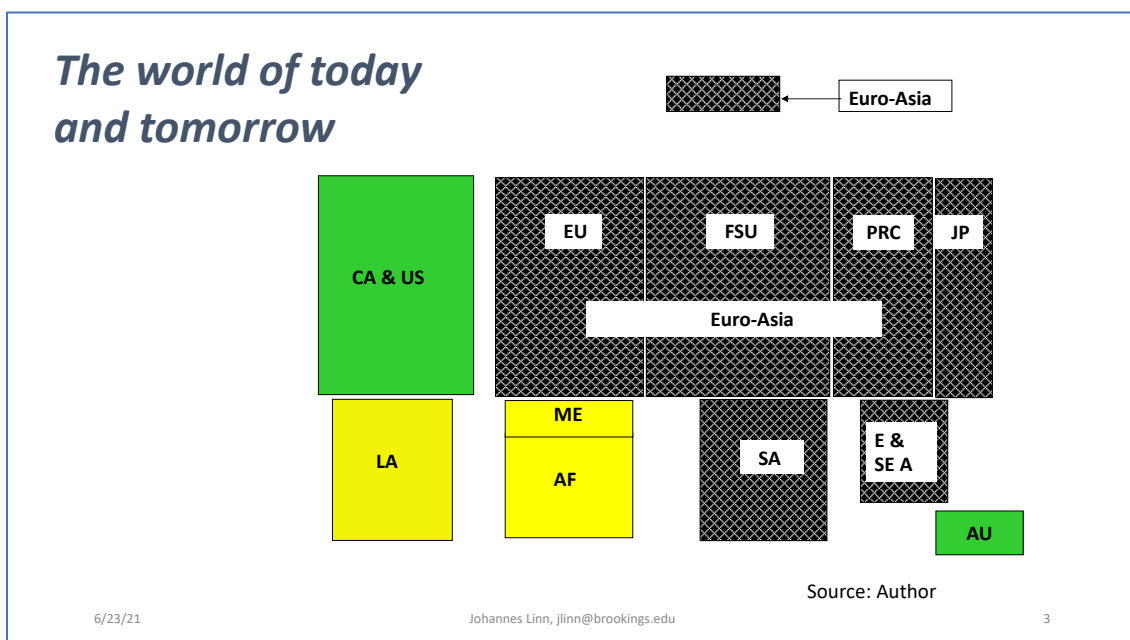
Johannes F. Linn
Brookings
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- Good afternoon and good evening to all; I am delighted that you could join us today for this important event on an important topic, one that has preoccupied me for the last 20 years or so – Economic integration of Euro-Asia
- My assignment today is to give you a bit of historical background on this issue, before we listen to the experts.
- Let me start by going back to my childhood: I grew up in post-WW2 West Germany:
 - As a young boy, and even as a student in West Berlin, I couldn't dream of crossing the Iron Curtain that divided West and East Germany and that also divided Western Europe from Central/East Europe;
 - At the same time, China was effectively shut off from the West also by the Bamboo Curtain;
 - In short, my generation faced a divided/fragmented Euro-Asia supercontinent.
- Post-war recovery in the West was driven in part by cross-Atlantic and cross-Pacific connectivity in a globalization process of trade and increasingly capital market integration; the global South traversed decolonialization; at the same time, Europe started its own integration process, which for me as a young German held great and exiting promise;

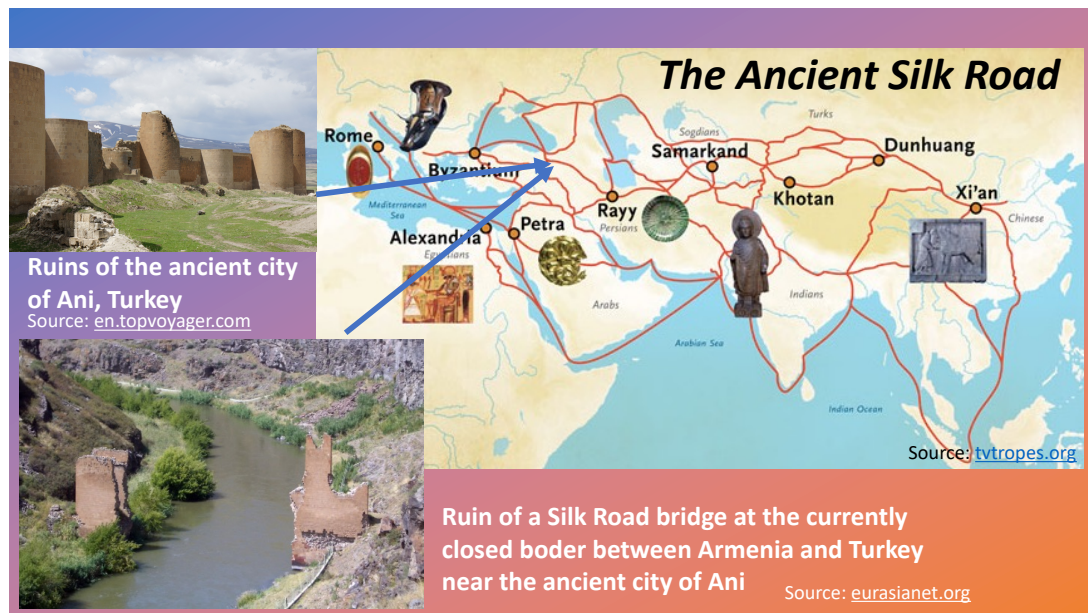
- During this period, the Euro-Asia space remained fragmented into at least 4 largely unconnected economic clusters – the world looked like this: [next slide]



- In the 1980s the post-war global alignment began to shift with the opening up of China and then the dissolution of the SU in the early 1990s.
- What emerged by the early 2000s was a new global economic geography that looked like this: [next slide]



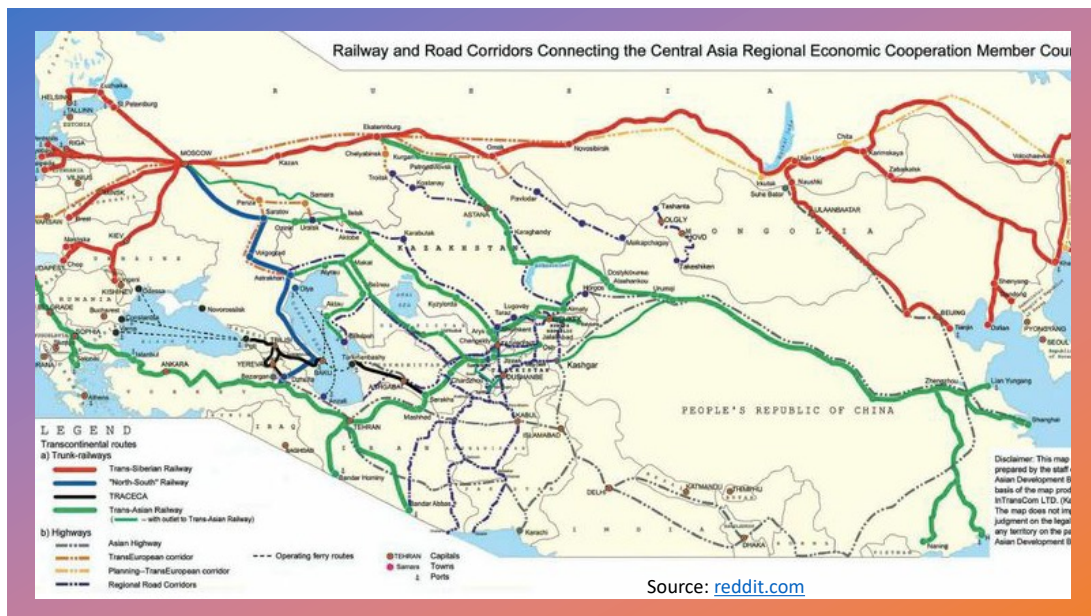
- The Iron and Bamboo Curtains were gone, and the process of Euro-Asian economic integration had started, along with progressive integration in Western Europe; decolonization was complete, and the global south rapidly integrated with the rest of the world.
- After the mid-2000s, some economists, including Evgeny Vinokurov, Richard Pomfret and myself, became interested in the prospects of Euro-Asian economic integration, esp. as the prospects for a global political accommodation between the traditional Western democracies, the new Russia and the emerging China looked promising.
- The ongoing integration process invited comparison with the integration of Eurasia under the Ancient Silk Road. [next slide]



- The Ancient Silk Road stretched across the Euro-Asian space for about 1500 years until the mid-1500s and was part of a remarkable period of super-continental connectivity of Euro-Asia; during this period, the great cities of Central Asia also witnessed their golden age of economic and intellectual development.
- The Silk Road, however, ruptured in the 16th Century as a result of political upheavals in and around Central Asia and with the development of more effective ocean transport competing with an increasingly difficult land transport.
- In the following three-plus centuries, the expansion of Tsarist Russia from the North, the economic and political decline of China in the East and the

colonialization of the Middle East and South Asia in the South hastened the fragmentation process, which then was completed with the rise of the Iron and Bamboo Curtains in the first half of the 20th Century.

- The ruin of an old Silk Road bridge across today's closed border between Armenia and Turkey and the nearby ruins of the ancient city of Ani attest to both the history of prosperous integration in the Silk Road era and the continued fragmentation of the Euro-Asian economic space even today.
- The Ancient Silk Road inspired dreams of economic integration among today's politicians with ambitious infrastructure plans, including the TRACECA program of the EU which was intended to support transport investments all the way to Central Asia from the West, the somewhat timid US "New Silk Road" program announced by the Obama Administration, and much more ambitiously and more recently the Belt and Road Initiative of China.
- Over the years, E-W and to some extent N-S transport routes have been developed, as reflected in this map of Euro-Asian transport corridors. [Next Slide] We will hear more about this from Evgeny and Richard.



- The history of the Silk Road provides a couple of cautionary lessons to those who believe Euro-Asian economic integration is the wave of the future: first, sea and air transport will compete with and limit the use of overland transport routes; second, and more importantly, political forces will slow the process, with continuing regional strife in some areas (India-Pakistan,

Armenia-Turkey, etc.) and with new geopolitical East-West tensions rising over the last decade and into the 2020s.

- In closing, let me very briefly turn to Central Asia and its historical role on the Euro-Asian continent, and to CAREC.
- As shown in the next slide, Central Asia is centrally located in Euro-Asia, landlocked and potentially land-linked.
 - Access to harbors is only through neighboring countries, with the closest harbors to the South (Iran, Pakistan).

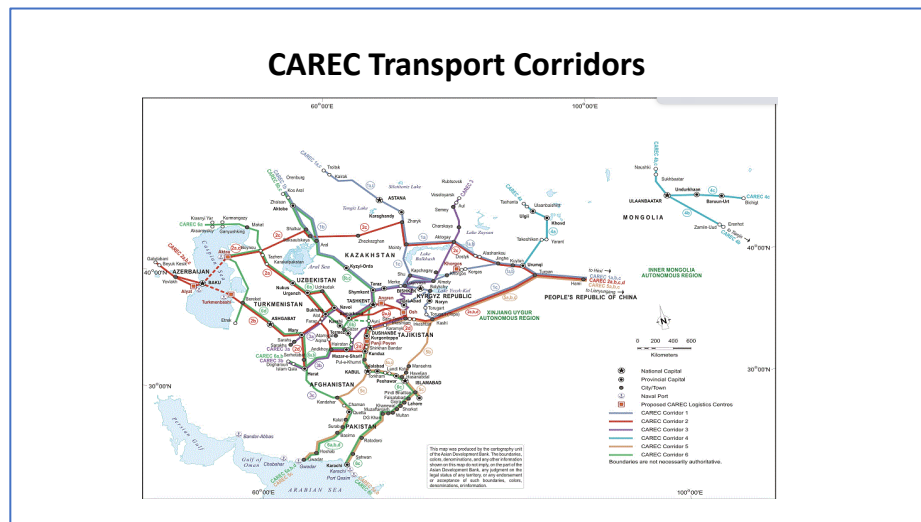
***Central Asia:
central, land-locked and potentially land-linked***



Source: Adapted from kalpak-travel.com

- But many of the East-West and North-South transit routes traverse CA and potentially link with large and dynamic markets – the PRC, South Asia, Middle East, the EU and Russia – with great economic opportunities, provided connectivity is improved.
- Unfortunately, the disintegration of the SU and the creation of the new states of CA with their new borders, also brought severe disruptions of traditional trading links across CA, with Russia and other FSU states, even as new opportunities for connectivity with other neighbors opened up.
- This is where CAREC is of critical importance:
 - It has provided support for substantial infrastructure investments (\$40b over 20 years), esp. in major transport corridors; [Next slide];

these corridors link CAREC countries among each other and with the rest of Euro-Asia; including the important N-S links;



- CAREC has provided support for trade and transport facilitation – critical for improved connectivity; and
- It has developed a unique sophisticated tracking mechanism to measure progress in terms of reduce transportation time and cost across the CAREC corridors
- But the recent arrival of the Belt and Road Initiative has reinforced the traditional focus on hard infrastructure development in the region.
- If there is one big lesson from the history of regional integration, it is that hard infrastructure investment helps, but it's not nearly enough:
 - Infrastructure assets need to be effectively operated and maintained; and
 - Complementary “soft” infrastructure is critical – i.e., efficient border crossing, predictable and effective logistics services, a supportive business climate, and stable political relations among countries.
 - For this to happen, appropriate national and regional institutions have to be developed, including a further strengthening of the role of CAREC, given its potentially critical role at the heart of Euro-Asia.
 - I expect we will hear more about this from our next speakers.
- Thank you for your attention