

## Information Brief

### *Seamless Connectivity between Central Asia and Other Subregions of Asia-Pacific: The Role of Infrastructure Investment and ESCAP's New Agenda*

*Recent events in the external economic environment have revealed several structural weaknesses in North and Central Asian (NCA) countries. One challenge facing this subregion is its economic vulnerability due to concentration in very few trade partners. As such, the recent economic slowdown in the Russian Federation has hit Central Asian economies which are highly interlinked with the Russian economy. Thus, further economic integration is needed not only with traditional trade partners but also new potential markets.*

*This Information Brief discusses the potential role of Chinese investments in improving transport infrastructure in Central Asia, as well as ESCAP's new agenda in enhancing regional economic integration within Asia-Pacific.*

#### **Introduction**

Despite deep socio-economic upheaval in the immediate aftermath of the dissolution of the Union of Soviet Socialist Republics (USSR), economic growth averaged about 8.1% and 11.2% (excluding the Russian Federation) during the resource boom years between 2003 and 2007. GDP generation in most countries has largely been driven by exports from their rich natural resource base. Economic growth in the subregion is also intimately connected to developments in the Russian Federation, which generates 83% of subregional GDP, as well as to the political and economic legacies inherited from the USSR-era.

More recently, the sharp decline in oil prices, combined with a marked economic slowdown in the Russian Federation, has led to rapid growth deceleration in the NCA economies. Not only has a major source of income been disrupted for commodity exporters, such as Azerbaijan, Kazakhstan, the Russian Federation, and Turkmenistan, non-commodity exporters such as Armenia, Georgia, Kyrgyzstan, and Tajikistan have also been affected due to their high reliance on remittances from migrant workers employed in the subregion's commodity exporting countries.

Looking forward, there are harbingers of a more purposeful reintegration process underway. For example, the Belt and Road Initiative (BRI) by the Government of China, envisaging more than \$40 billion in investments in the Silk Road corridors, offers the opportunity to not only establish new trade partnerships and networks, but to also open up multidirectional infrastructural links within Asia-Pacific. Among others, the ongoing initiatives have all sought to further link the economies of the NCA subregion. These initiatives have the potential to reinvigorate growth prospects by enhancing connectivity and economic diversification, as well as by scaling up NCA participation in regional and global markets.

#### **Economic Integration in Central Asia**

NCA continues to remain the least integrated subregion in the entire Asia-Pacific region. Table 1 shows intraregional merchandise imports as a percentage of subregional GDP between 2007 and 2014. Merchandise imports from within the Asia-Pacific region account for 5.9% of GDP in NCA in 2014, which is significantly lower than in other subregions: from 9% in South and South-West Asia to 29.4% in South-East Asia. The integration of NCA economies into the Asia-Pacific has exhibited little progress, even worsened, while South and South-West Asia has improved compared to 2007.

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**Table 1: Intraregional Merchandise Imports in Asia-Pacific (% of GDP)**

|                                  | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------------------------|------|------|------|------|------|------|------|------|
| <b>North and Central Asia</b>    | 6.3  | 6.5  | 5.3  | 5.7  | 6.4  | 6.6  | 6.2  | 5.9  |
| <b>East and North-East Asia</b>  | 14.4 | 14.2 | 11.3 | 13.1 | 13.7 | 13.1 | 13.1 | 12.7 |
| <b>Pacific</b>                   | 9.8  | 11.3 | 9.8  | 9.4  | 9.5  | 10   | 9.6  | 9.7  |
| <b>South and South-West Asia</b> | 8.2  | 9.5  | 8.2  | 8.6  | 9.5  | 9.5  | 9.1  | 9    |
| <b>South-East Asia</b>           | 35.1 | 37.2 | 29.6 | 31.5 | 31.9 | 31.8 | 30.9 | 29.4 |

*Source: ESCAP Statistical Database*

The trade structure of NCA lacks diversity in export products and trade partners. Most notably, exports from NCA consist mainly of low value-added commodities. Kazakhstan, Azerbaijan, and Turkmenistan, which together supply over 80% of total exports from Central Asia, depend heavily on their energy endowments for exports. Non-oil-exporting countries such as Tajikistan and Kyrgyzstan are highly remittance-dependent and reported the highest remittances/GDP ratio in the world in 2013, at 48.8% and 31.5%, respectively.<sup>i</sup> While commodity exports are mostly intended for global markets (despite China's growing share), non-commodity exports are largely destined within the NCA subregion itself, demonstrating a lack of global competitiveness in the manufacturing and service sectors.

The persistence of non-tariff barriers continues to limit the subregion's potential in transforming itself into a competitive player in the Asia-Pacific and international markets. Reducing trade costs is especially beneficial for small and medium-sized businesses to participate in global value chains (GVC) and for countries to enjoy economic diversification, as well as sustainable and inclusive growth in NCA. However, the 2015 ESCAP Survey<sup>ii</sup> shows that NCA countries have achieved slower progress in the implementation of trade facilitation and paperless trade than other subregions, such as South-East Asia, which had significantly improved in customs management and transit transport facilitation within the framework of ASEAN cooperation. Due to the absence of such a framework, the NCA subregion has yet to capitalize on its potential as a transit route for goods and services moving between East Asia and the European Union.

### **Physical Transport Connectivity Driven by Chinese Investment**

Cross-border infrastructure connectivity is essential for achieving economic integration along with production efficiency, export competitiveness, and policy harmonization. As one of the prioritised areas in their national development strategies, NCA countries have begun modernising their infrastructure networks for transport, power generation, and communication.

Historically, this effort has been devoted to improve connectivity northwards towards the Russian Federation. However, east-west corridors have developed quite rapidly in recent years due largely to support from Chinese investments. For example, a gas pipeline connecting from Turkmenistan through Uzbekistan and Kazakhstan to China was completed in 2009. To date, the

pipeline is well managed on a cooperative basis amongst all parties and will be extended to connect to Kyrgyzstan and the Islamic Republic of Iran when delivery capacity is expanded. This project highlighted China's potential leadership role in the subregion's economic integration as it demonstrated the first meaningful collaboration of three Central Asian countries in a mutually beneficial project.

For Eurasian transport connectivity, China has invested in a railway connection from Urumqi in China through Kazakhstan and the Russian Federation to the Ukraine-Poland border, making it a major segment of the strategic Chongqing-Duisburg route. This railway enables Chinese producers to ship their time-sensitive products,

such as electronics, to the European market under 16 days (as compared to 36 days over maritime routes). On the return journey, trains can carry automobile parts for assembly in China in addition to luxury and perishable goods to meet growing Chinese consumption. China also upgraded a segment of the route under its high-speed rail network, where it only takes ten hours to travel 1776 km from Lanzhou to Urumqi. This type of upgrading over the entire route would enable Shanghai and Berlin to be linked in two days traveling time in the future.

Even though it might be incompatible with the Eurasia-crossing link, China is also making efforts to develop a transportation link southward. Beijing has lent \$450 million to Uzbekistan for railway construction and envisages a Southern main line through Tashkent, Teheran, and Istanbul, linking up with maritime routes to the Middle East and North Africa, as part of China's Silk Road Economic

Belt Initiative. Beijing has further proposed a plan to invest \$46 billion to strengthen the China-Pakistan Economic Corridor by upgrading the Karakoram Highway connecting from Kashgar in China to Abbottabad in Pakistan.

With China's active moves to revive the ancient Silk Road through the announcement of the BRI in 2013, Central Asia can serve once again as a crucial linking hub for East and West, as well as North and South, in the twenty-first century. For example, the border city between China and Kazakhstan, Khorgos, has attracted billions of dollars through investments in a dry port connected to the Kazakh railway system, which now has a cargo-handling capacity of 200,000 containers. Thus, the BRI offers an unprecedented opportunity to create a "belt of economic prosperity" that can open up dormant economic relations among countries previously barred by inward-oriented economic policies.

### **ESCAP Agenda for Regional Economic Cooperation and Integration**

Investments in physical infrastructure augment gains of sustainable economic development if they are accompanied by a stable architecture which enhances regional and subregional cooperation among multiple stakeholders. The pathway to cooperation will not be easy and will require a political commitment carried out in tandem to remove institutional challenges such as the harmonization of transport and transit policies, standards on safety and insurance, and the efficiency and transparency of border controls. To this end, ESCAP is implementing the Agenda for Regional Economic Cooperation and Integration (RECI)<sup>iii</sup>. At the first Ministerial Conference on Regional Economic Cooperation and Integration in Asia and the Pacific in December 2013, member States adopted the Bangkok Declaration which sets out this Agenda. It includes a proposal to establish expert working groups on moving towards the formation of an integrated market, as well as on the development of seamless connectivity in the region. ESCAP's forthcoming report titled "Regional Integration: Enhancing Sustainable Development in Asia and the Pacific" will discuss further issues related to

intergovernmental cooperation at the regional and subregional levels.

ESCAP also supports the United Nations Special Programme for the Economies of Central Asia (SPECA) as a vital platform for political dialogue on possible cooperation in Central Asia<sup>iv</sup>. The current members are Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. SPECA member States have been working together to simplify processes and build export competitiveness in response to growing market demands from other Asia-Pacific partners. In November 2016, SPECA member States adopted the Ganja Declaration on "Strengthening Implementation of SDGs through Enhanced Cooperation". The Declaration demonstrates a common vision for the subregion centred on a firm commitment to strengthen collaboration and policy coherence for the implementation of the Sustainable Development Goals (SDGs). It also strategically repositions SPECA as a platform for promoting policy coherence and coordination among SPECA countries.

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<sup>i</sup> For more information, see [World Bank Migration and Remittances Data](#) (accessed 16 September 2015).

<sup>ii</sup> ESCAP (2015): Trade Facilitation and Paperless Trade Implementation Survey 2015: Asia and the Pacific Report.

<sup>iii</sup> E/ESCAP/72/5

<sup>iv</sup> SPECA is jointly supported by ESCAP and the United Nations Economic Commission for Europe (ECE).

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