Enhancing development through trade connectivity along the Eurasian Continent

Beijing
3 November, 2015
Framework

- Connectivity enhancing infrastructure
  - Proximity and connectivity are essential for diffusion of global value chains
  - Integration of the Central Asia and the South Caucasus into Eurasian continent, to the global economy
  - Physical vs Regulatory/Hardware vs Software issues

- Major corridors
  - Northern is operational through Russia
  - What about the middle corridor?
  - Meanwhile in the lower south
    - İstanbul-Islamabad railway
Land routes are far more optimal from China to Europe

Average cost and transit time for a 40' container from Asia to Europe

Cost (USD)
30,000
25,000
20,000
15,000
10,000
5,000
0
Time (days)
0 5 10 15 20 25 30 35 40 45
However, sea and air are dominating. 62% of all EU-China trade is by sea, 23% is by air.

<table>
<thead>
<tr>
<th>Modes of transport for China-EU trade, (2012)</th>
</tr>
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<tbody>
<tr>
<td>Volume</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td><strong>Sea</strong></td>
</tr>
<tr>
<td><strong>Air</strong></td>
</tr>
<tr>
<td><strong>Road</strong></td>
</tr>
<tr>
<td><strong>Rail</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: Eurostat
Why?
Issues of “hardware” and “software”

<table>
<thead>
<tr>
<th>Transport time and distance across Central Asia (2010-2013)</th>
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<tbody>
<tr>
<td><strong>Time taken to clear a border crossing</strong></td>
</tr>
<tr>
<td><em>Hours</em></td>
</tr>
<tr>
<td>2010</td>
</tr>
<tr>
<td>8,7</td>
</tr>
</tbody>
</table>

| **Costs incurred at a border-crossing**                    |
| *$*                                                        |
| 2010 | 2012 | 2013 |
| 186  | 157  | 235  |

| **Speed of travel**                                       |
| *500 km CAREC corridor*                                   |
| 2010 | 2012 | 2013 |
| 24   | 23   | 20   |

| **Costs incurred transporting goods**                      |
| *$, per 500km, per 20-ton load*                           |
| 2010 | 2012 | 2013 |
| 712  | 999  | 1482 |
“Hardware” issues
Infrastructure connecting China to Turkey is inadequate

Silk Road countries’ quality of trade and transport infrastructure (2014)

Kaynak: WB Logistics Performance Index
“Software” issues
Trade facilitation is a must

Efficiency of customs and border management (2014)

Kaynak: WB Logistics Performance Index
Level of regional economic integration is even lower than Sub-Saharan Africa

Share of intra-regional trade in total trade, 2013

- AB-28: %62.1
- NAFTA: %48.3
- Developing Asia: %46.7
- MERCOSUR: %26.6
- ASEAN: %24.3
- CEFTA: %13.1
- ECOWAS: %11.9
- SCCA: %6.3
- South Med.: %3.7
Alternative routes
Routes over the South Caucasus in the Middle Corridor
Routes over the South Caucasus in the Middle Corridor

Roads
Logistic Centers
Existing railroads
Railroads that need to be constructed
Towards Istanbul-Tehran-Islamabad—Delhi-Kolkata-Dhaka (ITI-DKD) Train
Concluding comments

- “Transport corridor approach”
  - Intermodality
  - Construction of dry ports and logistics centers
- Tackle the weakest link
  - Border crossings, inter-model ports, conflict zones, or in areas where infrastructure is weak or non-existent.
  - G20 country-specific investment strategies are important, but also they should be coordinated
- Engaging the private sector from the onset
- Financing: Cross-border public-private partnerships (PPPs), the role of aid cooperation
- New regulatory issues
  - The impact of e-commerce on cross border trade
- Cooperation possibilities
  - Middle corridor?
Why is Silk Road important for us?
1. Market diversification & access to Asia

Share of Turkish exports in global markets, 1995-2013, %
Why is Silk Road important for us?
2. Reducing regional disparities

Erzurum, Gaziantep and Diyarbakır’s share of total population throughout history, 1927-2012, per 1000 people
Proximity and connectivity are essential for diffusion of global value chains

Change in national export manufacturing shares, 1980s to 2007-2008

Baldwin (2011)

The tight geographical clustering of manufactures export swings.

Note: Data for all nations with 1) population over 10 million, 2) manufacturing export share over 50% in 2007-08, 3) at least 90% data coverage 1985 to 2008. Source: Author’s calculations on World Bank data.
Baldwin (2011)
The tight geographical clustering of manufactures export swings.