Eurasian Connectivity and its Potential Impact on CAREC

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Outline of Argument

Following difficult economic conditions of the 1990s, the Central Asian countries enjoyed positive economic growth during the 1999-2014 resource boom.

After suffering a serious downturn in 2015-16, governments recognized the need for economic diversification.

Improved Eurasian rail connectivity during the 2010s provides a window of opportunity for Central Asian countries.

- Better transport links can facilitate export diversification – if combined with domestic reforms to ↓ costs of international trade and of doing business.
- In 2020-1 COVID-19 has dominated policymaking, but has also highlighted the potential of rail transport.

Introduction

Before 2000 overland international transport across Eurasia was limited

- for the Central Asia and Caucasus countries roads and railways led north to Russia
  - First rail line to China opened in 1990 and to Iran in 1997 but little used in 1990s & 2000s.
  - No rail links to Pakistan and road connections through Afghanistan were often difficult

Maritime shipping was far cheaper

- after European discovery of sea route to India and China, shipping efficiency ↑ dramatically over next half millennium.

In 2000s, car and electronics companies sought to link Asian and European supply chains

- VW and BMW organized block trains from EU to NE China via the TransSiberian Railway
  - Daewoo sent components from Korea via China to Uzbekistan

Crucial prerequisite for global value chains (GVCs) is ease of international trade

- relevant trade costs = **money, time and uncertainty**
- From c1500-2010, sea dominated East Asia – Europe trade due to low freight rates
  - but GVCs are willing to pay for faster, reliable delivery

Since 2011, regular rail services have been established between Europe and East Asia.

The Eurasian Landbridge since 2011

In 2011 regular services were established on the main Landbridge route between EU and China -- transiting Kazakhstan, Russia, Belarus

- mostly pre-existing track, but improved infrastructure, e.g. at change of gauge, → ↓ costs
- freight forwarders provided more services (part loads, refrigeration, etc)

Rapid growth in volume of trade and in number of routes (next slide).

COVID emphasized the advantages of rail transport:

- maritime shipping disrupted by COVID, leaving ships in the wrong place *
- air transport disrupted by reduced flights
- 547,000 containers shipped between China and EU by rail in 2020 and number is ↑ in 2021

* China-northern Europe maritime freight rates ↑ 9 times higher in 2021 than 2019, and ships took longer ("Perfect Storm", *The Economist* 18 September 2021).

Volume of Traffic on China-EU-China Container Trains, 2015-21

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 10 December)	652,200

Source: Eurasian Rail Alliance at https://utlc.com/en/ (accessed 10 December 2021)

China Railway Express route map, May 2017

Eurasian Connectivity – alternative routes

1. Currently the main line is PRC/Kaz/RF/Belarus/EU
2. Middle corridor = an alternative (and shorter) route to Turkey & Middle East, southeast Europe or Ukraine.
   - proposed in 1990s in EU's TRACECA program
     - little take-up due to multi-modal → long & unreliable journey times
   - prospects in 2020s much better due to:
     - proven attractiveness of Eurasian rail connectivity
     - better rail links to the Caspian and improved boat crossing
       - Kazakhstan's improved east-west line
       - completion of Baku-Tbilisi-Kars rail line to eastern Turkey in 2017
3. Southern corridor - currently poor rail infrastructure between Iran and Turkey

Alternatives are good because they deter hold-up pricing by transit countries.

Rail Routes between China and Europe

Source: Der Festlandshandel zwischen China und der EU. Welche Möglichkeiten ergeben sich für Zentralasien? *Zentralasien-Analysen 137*, September 2019

Eurasian Connectivity – future routes

Apart from the existing Eurasian rail network, potentially important for future connectivity are

- The role of Kashi (Kashgar) – the western most point on the Chinese rail network
    - Rail to Pakistan – China-Pakistan economic corridor
    - Kashi-Andijon link through the Kyrgyz Republic
- A southern route through Iran to Turkey & the Middle East

Stylized map from World Bank Group 2019 report *Belt and Road Economics*

What are the Prospects for CAREC Countries?

There is widespread recognition of the need for economic diversification if the Central Asian economies are to prosper.*

Rail connectivity as in the Landbridge was less important for primary product exports such as cotton, minerals, oil and gas, which are not shipped in containers – but is important for manufactures and, especially, for many high-value fruit and vegetables that rely on cold chains and just-in-time delivery.

1. improved infrastructure can ↓ the costs of landlockedness for Central Asian exporters
2. whether a country takes advantage of improved physical connectivity will depend on economic reforms to reduce the costs of doing business and of international trade.**

   Generational change can be a positive factor:

   - adult lives of current generation of leaders have been mostly spent in post-centrally-planned economies,
   - but policies may be driven by the interests of an elite that is content with semi-reformed economies.

   The resolution of these dilemmas will be decisive.

* Hans Holzhacker (Intra-CAREC Trade: business as usual or about to change? *CAREC Institute Economic Brief,* 29 June 2020) observes that the Integrated Trade Agenda adopted by CAREC in 2018 calls for policies to promote export diversification but so far this has not been happening.

** Ghulam Samad and Qaisar Abbas (Infrastructure in Central Asia and Caucasia, *ADBI Working Paper No. 1202,* Asian Development Bank Institute, Tokyo, 2020) emphasize that although infrastructure investment is needed it will be ineffective without significant improvement in soft infrastructure.

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THANK YOU

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Any comments welcomed