

wiiw Spring Seminar, 7 April 2016

Eurasia and the Silk Road

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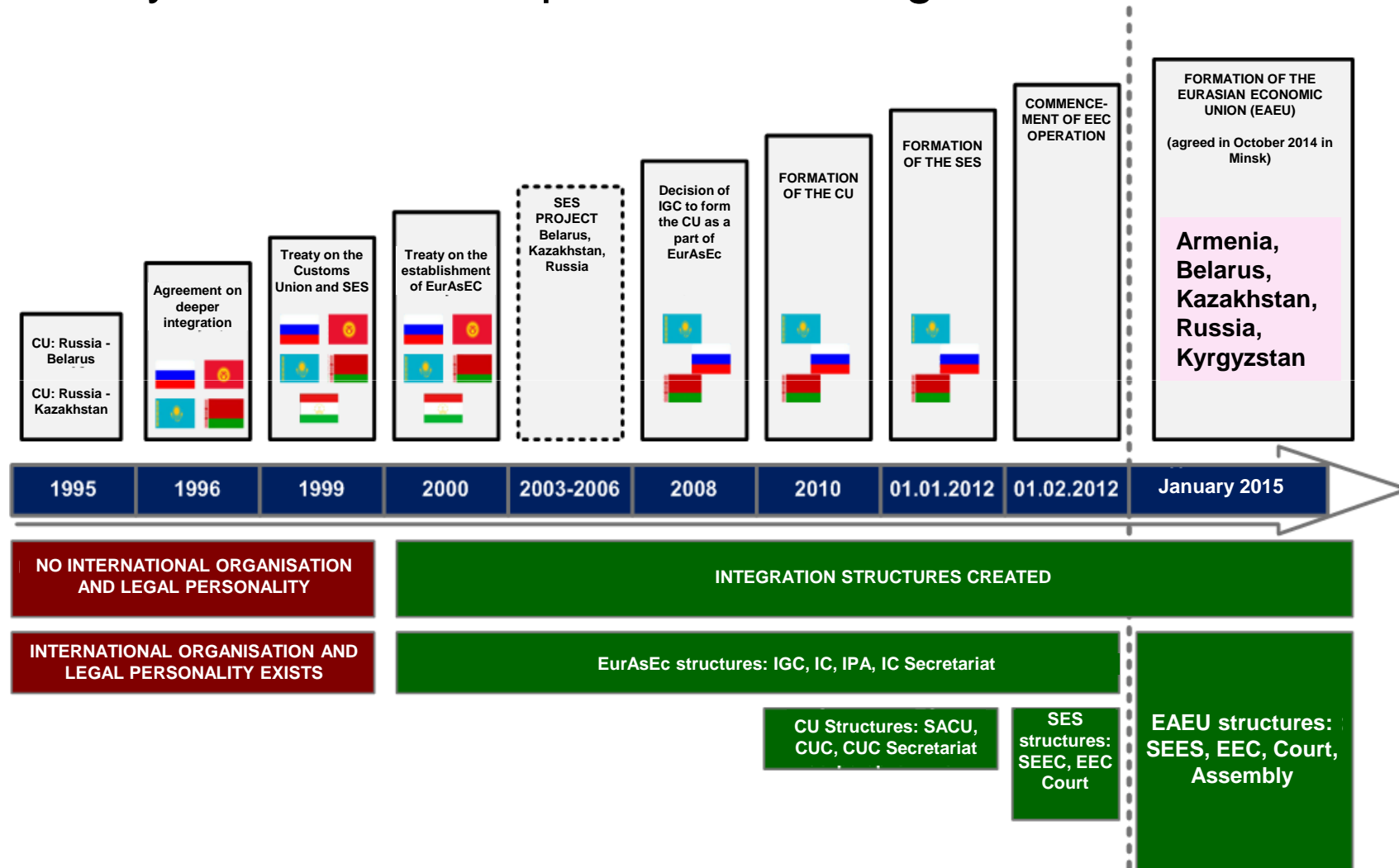
The Vienna Institute for International Economic Studies, wiiw

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Topics covered

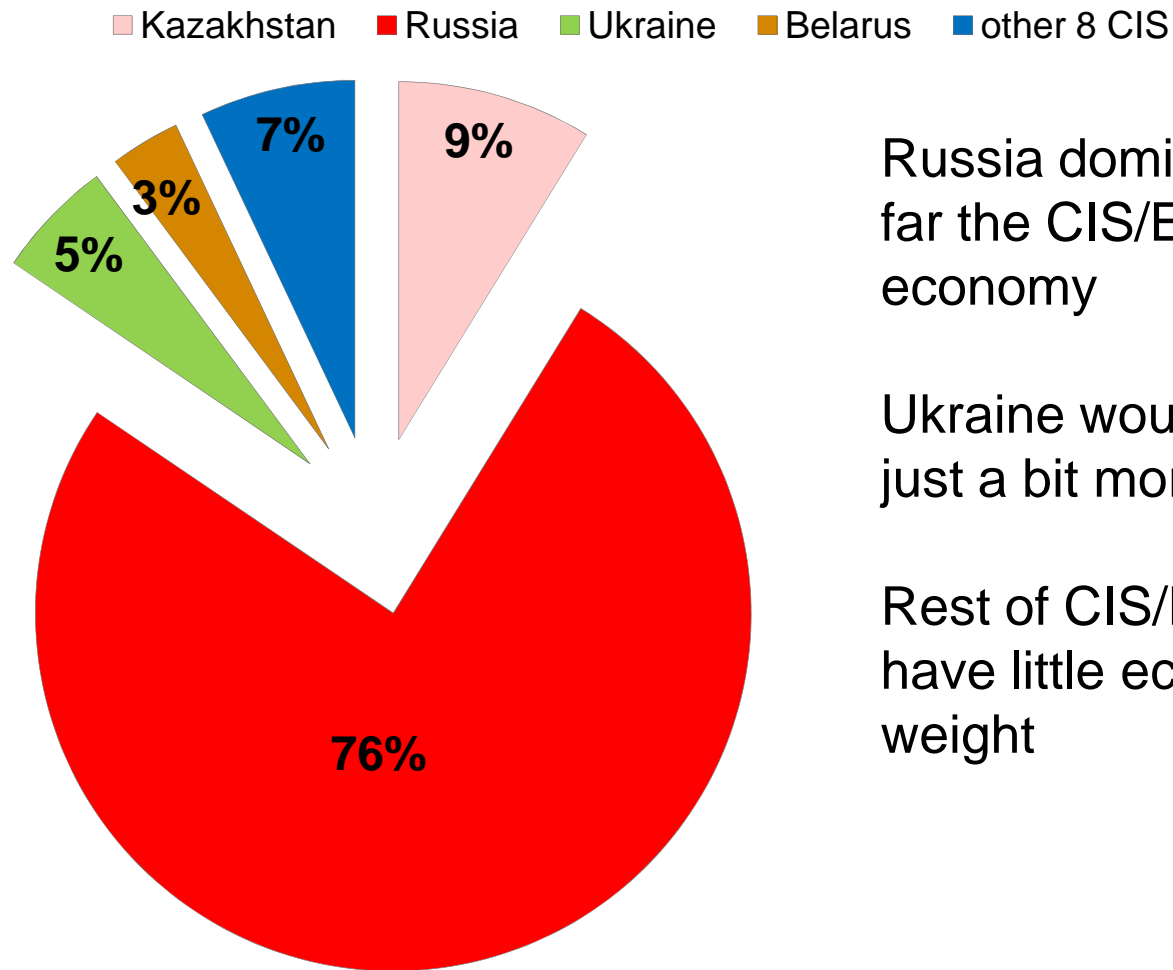
- Two competing integrations: European Union (EU) and Eurasian Economic Union (EAEU)
- Economic dimensions: EU and EAEU
- Enter China, get the Silk Road
- Trade and FDI patterns: EU-EAEU-China
- EU, EAEU and the Silk Road: rivals or partners?
- Challenges and conclusions

History of Russian-led post-Soviet integration



Source: Adapted from Eurasian Development Bank (www.eabr.org).

Economic dimension: GDP in the CIS/EAEU, in % of total, 2014

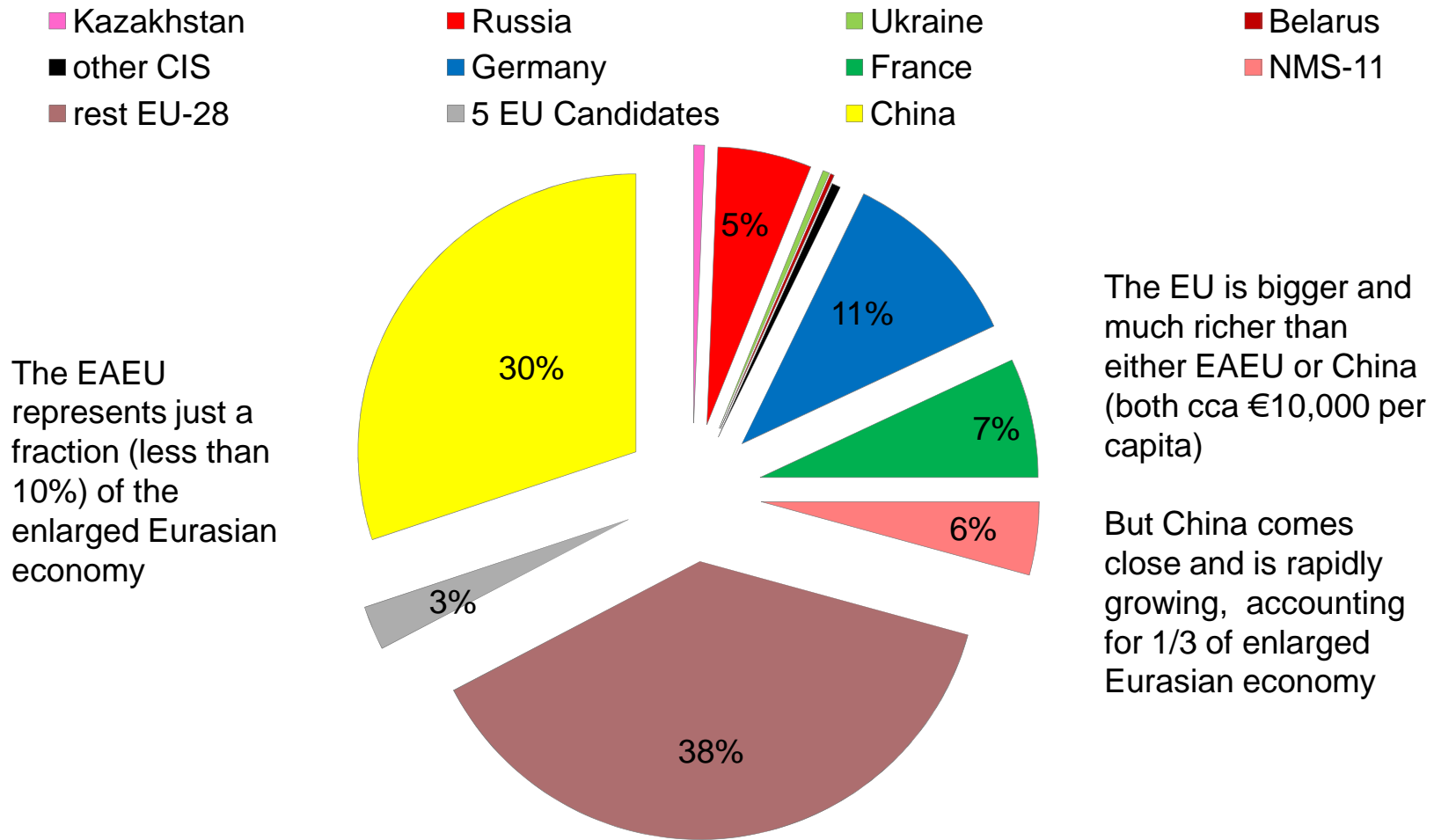


Russia dominates by far the CIS/EAEU economy

Ukraine would bring just a bit more balance

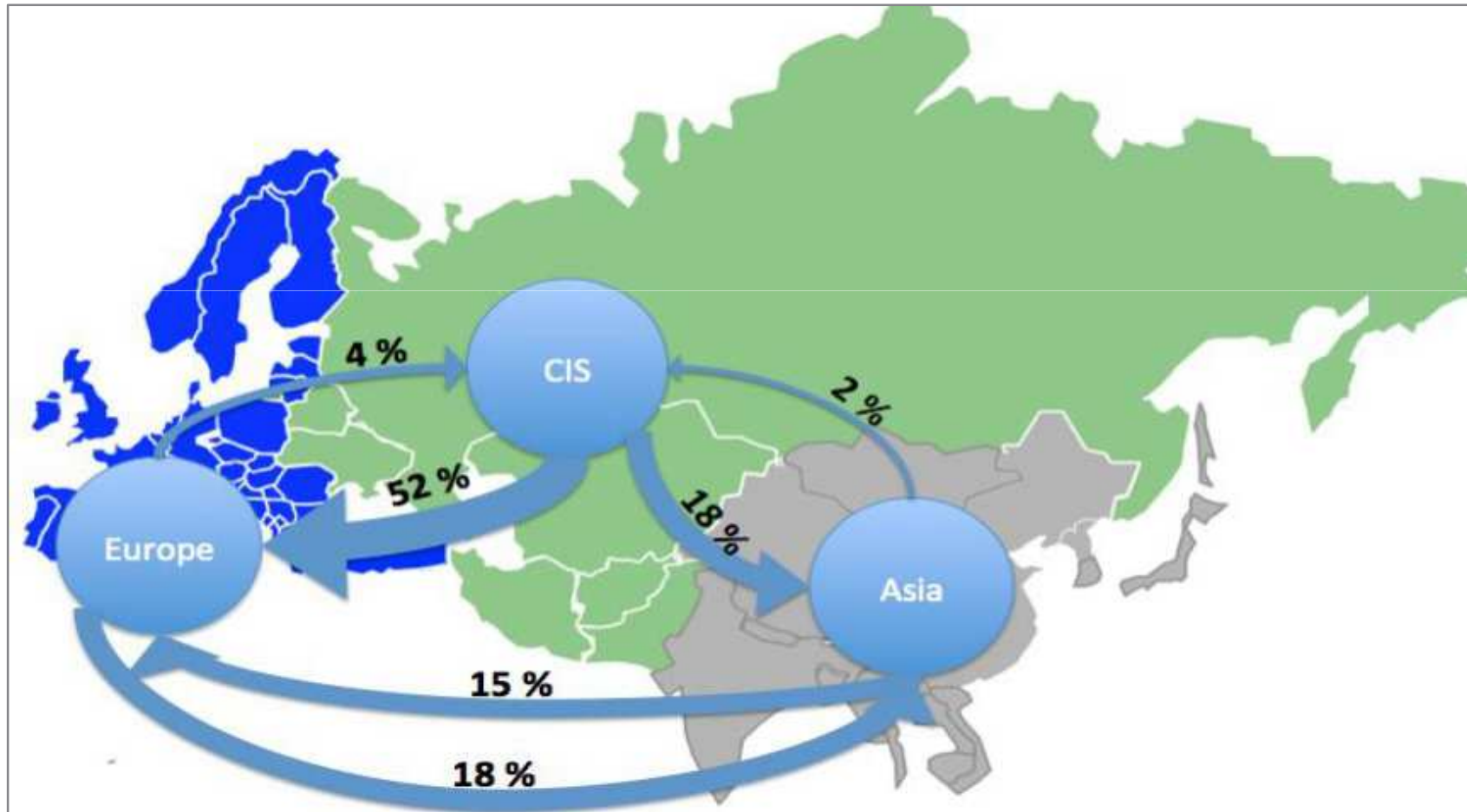
Rest of CIS/EAEU have little economic weight

GDP in wider Eurasia (Lisbon-Vladivostok-Shanghai), 2014 (wider Eurasia = enlarged EU + CIS/EAEU + China)



Sources: wiiw Database incorporating national, CISSTAT, IMF and Eurostat statistics; own estimates.

Trade flows between EU and Eurasia (export shares in total, 2013)

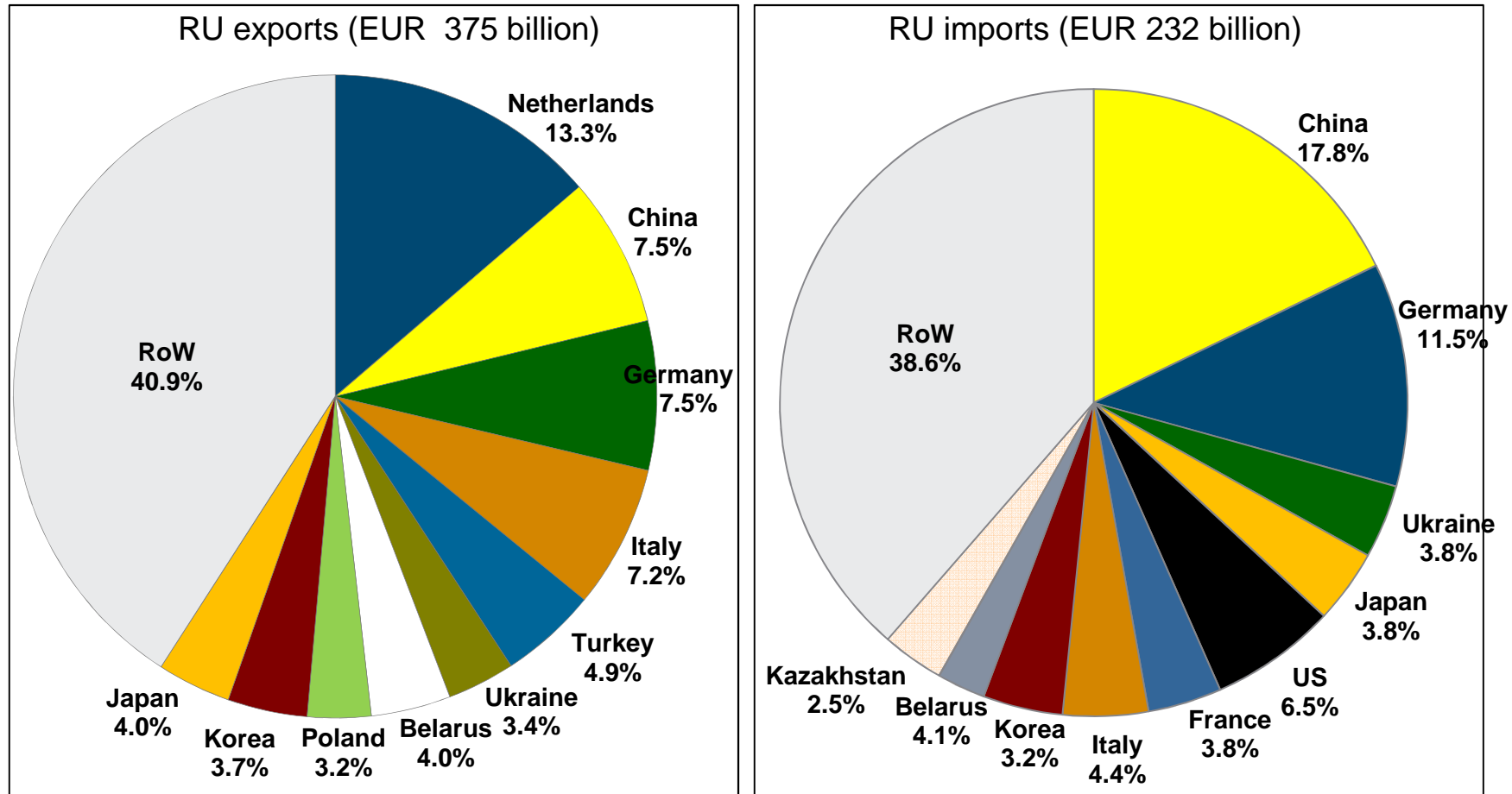


Source: Adapted from UN ECE (2015).

What is in the cards for Russia?

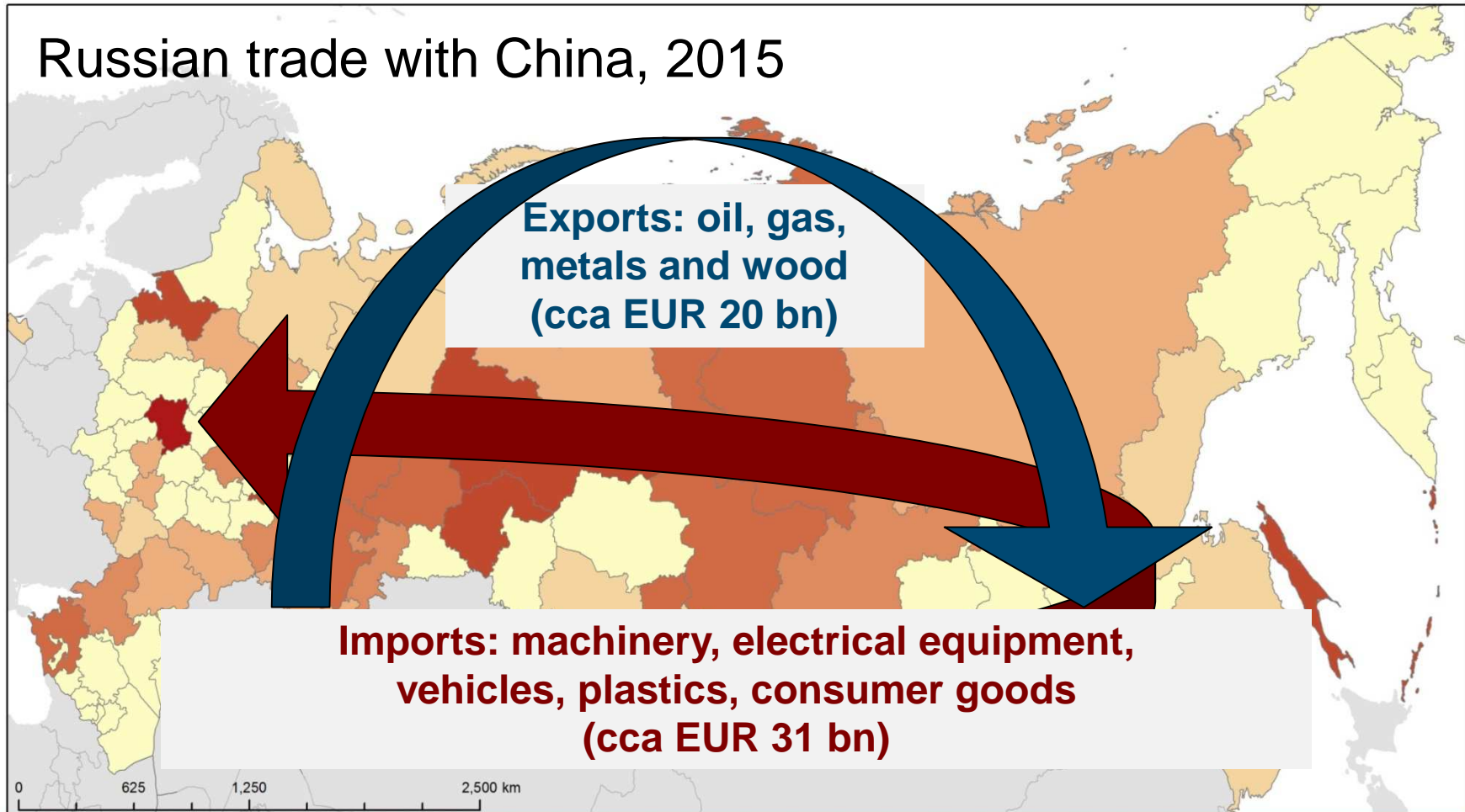
- 'Stuck in transition' already before Ukraine crisis escalated
- Falling energy export revenues and growth sustainability
- Diversification and modernisation of the economy
- Integration on the post-Soviet space
- Switching pivot to China

Russia's main trading partners, 2014, in % of total



Source: wiiw Annual Database, national statistics.

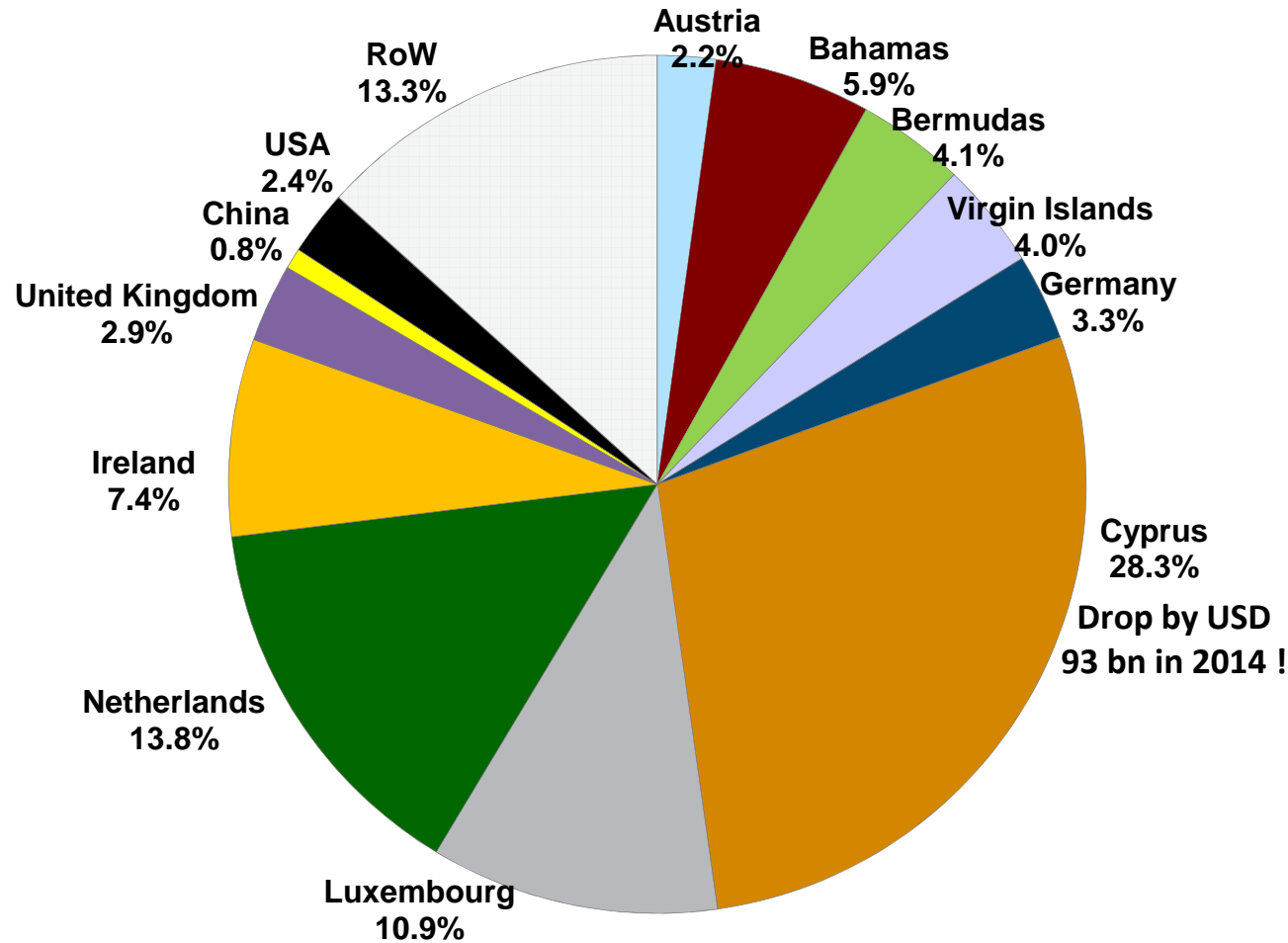
Russian trade with China, 2015



Regional export shares in total Russian trade 2012, in % of total

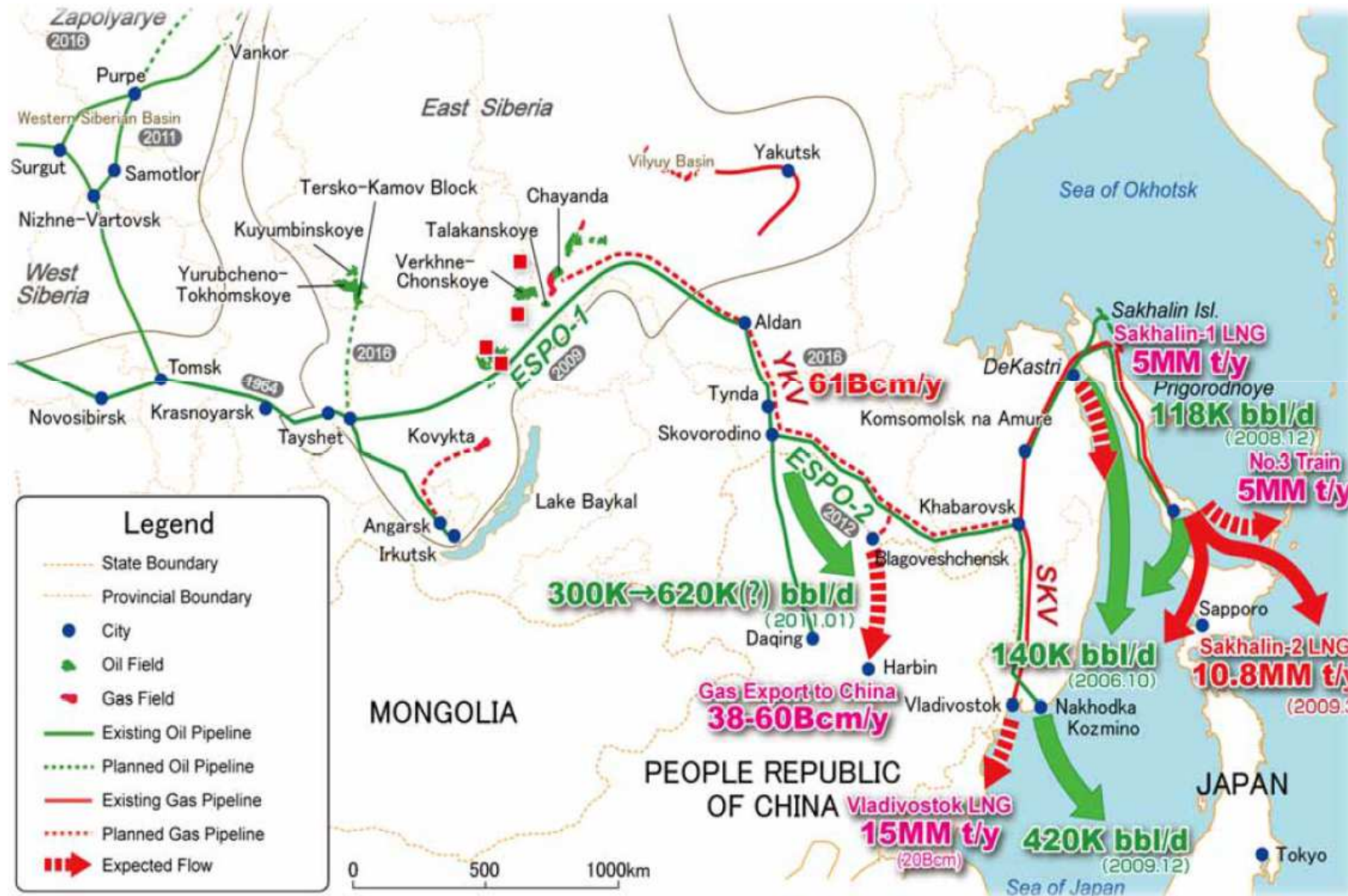


Russian inward FDI stocks fell by USD 212 billion within one year (to USD 353.4 billion, end-2014)



Sources: wiiw FDI Database incorporating national statistics (CBR); own estimates.

Drastic Increase of Energy Flow from Russia to Asia



Source : Keun-Wook Paik, IIASA Energy Workshop, 12 May 2015.

From China to Spain with the cargo train ...



- **13000 kilometres** from Yiwu to Madrid
- through Kazakhstan, Russia, Belarus, Poland, Germany and France
- 30 containers carrying 1,400 tonnes of cargo
- the journey was a **test run** to assess the viability of adding Spain to a route that already links China with Germany five times a week linking Chongqing, the huge industrial city in south-west China, with Duisburg, and Beijing with Hamburg
- it took **three weeks** to complete a journey that takes up to **six weeks by sea**;
- **more environmentally friendly** than road transport, which would produce 114 tonnes of CO2 to shift the same volume of goods, compared with the 44 tonnes produced by the train – a **62% reduction**
- the cargo had to be transferred three times during the journey as a result of **incompatible rail gauges**. The **locomotive had to be changed every 500 miles**.

EU-China-Russia export specialisation asymmetry: implications for the Eurasian Silk Road (I)

- EU exports specialise mainly in machinery, vehicles, aircraft and pharmaceuticals to both China and Russia (more than 50% of total EU exports)
- More than 50% of EU imports from China are made up of electrical and mechanical machinery
- There is strong evidence for a lot of EU-China intra-industry trade
- In contrast, at least 75% of imports from Russia (both of the EU and China) are made up of mineral fuels, an additional 4% of metals (iron, steel and aluminium), wood and fertilisers

EU-China-Russia export specialisation asymmetry: implications for the Eurasian Silk Road (II)

- Oil and gas pipelines from Russia go in both Eastern (China) and Western (EU) directions
- Rail cargo (containers) transit from China to Europe via Russia face costs and other logistic obstacles
- Chinese Silk Road Fund (USD 40 billion) and money from the Asian Infrastructure Investment Bank (up to USD 100 billion)
- Russia's own investment resources are scarce owing to sanctions and low oil prices
- Eurasian Development Bank provides USD 1 billion credit for road construction in Kazakhstan (KZ), Armenia (AM), Kyrgyzstan (KG) and Tajikistan (TJ)

Conclusions and Silk Road Challenges

- Russia strives to diversify exports and switch the pivot to China
- China aims to develop its own backward and restive western Xinjiang region
- Both Russia and China aim to counter US-led TPP and TTIP trade megadeals
- China's 16+1 trade and investment initiative for CESEE has a largely symbolic character
- Yet closer integration of the EU, EAEU, other Eastern Partnership countries and China could boost trade, investment and growth in a wider Eurasia
- But geopolitics matter: a wider Eurasian integration in the medium and long run – from Lisbon to Vladivostok and Shanghai – would spare Ukraine and other Eastern Partnership countries from making 'impossible' either/or choices



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Thank you for your attention

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