

EURASIAN ECONOMIC INTEGRATION: A GLOBAL OPPORTUNITY FOR THE 21ST CENTURY

The second half of the 20th Century saw powerful forces of global economic integration, led by the rapid expansion of trans-oceanic economic links among the major economic powers of the then “Western” world. The US and Europe expanded trade and capital flows across the Atlantic at an unprecedented speed, followed closely by the transpacific integration of the Japanese and South East Asian economies with the US. The developing countries of “South” (Africa, Latin America and South Asia) also participated in this process of globalization, albeit with less political influence and less economic success. In the meantime, the predominant powers of the “East” – the Soviet Union and China – faded economically and politically during the waning stages of the Cold War, suffering from self-imposed economic isolation and debilitating internal economic and political mismanagement.

One of the key aspects of this period of globalization was that the economic space of the Eurasian supercontinent – stretching from the Atlantic to the Pacific Oceans and from the Arctic Sea to the Indian Ocean – lagged behind dramatically in the global economic integration process. Not only did the huge overland distances discourage land transport and continental trade, but political barriers – the Iron and Bamboo Curtains especially – and isolationist and dysfunctional economic policies in key countries discouraged the development of transcontinental transport and communications links and the expansion of trade and capital flows across the hard borders separating Eurasian neighbors.

All this began to change dramatically with the opening up of China in the 1980s and the collapse of the Soviet Union in the early 1990s. These historic developments meant that towards the end of the 20th Century the long-standing barriers to economic integration and political cooperation across the Eurasian super-continental space started to tumble. As a result, we now, at the beginning of the 21st Century, see a transcontinental process of economic integration gather speed.

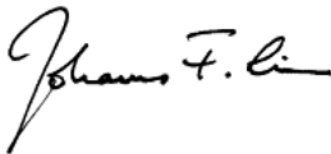
The economic integration process is particularly rapid in the energy sector, as pipelines increasingly connect the oil and gas rich areas of Russia and the Caspian Sea Basin not only with Western Europe, but increasingly also with China and Japan towards the East and eventually also with Pakistan and India towards the South. Similarly Central Asian hydropower in the coming years will supply customers from Russia to China to South Asia. Non-energy trade between the emerging continental economies of Eurasia – especially China, India and Russia – is also rapidly expanding benefiting from and at the same time helping to support their exceptionally rapid growth.

Transcontinental rail and road transport corridors are being expanded and upgraded providing opportunities for shipment of commodities overland and speeds and costs that will be increasingly competitive with the traditional, much longer sea routes. Rapid expansion of air traffic across Eurasia is proceeding at rates reminiscent of the growth of air transport across the Atlantic and Pacific oceans in the decades after the 2nd World War. All parts of Eurasia are now covered by the footprint of communications satellites and are connected increasingly by high-speed telecommunications

and internet links, bringing the distant landlocked regions of Russia, China and Central Asia close to the hubs of commerce and knowledge everywhere in a way that could hardly be imagined even twenty years ago. Capital flows much more freely now among the countries of Eurasia, with not only European banks, but also Russian, Kazakh and Chinese banks investing across borders. China's and Russia's investments and aid flows are playing an increasing role in Central Asia. Tourism is expanding across Eurasia in ways that replicates the earlier waves from the US and Japan into Europe, as Chinese tourists begin to flock to Europe and other parts of Eurasia. At the same time the growing cross-continental illicit drug trade is a common threat to Europe, Russia, China and India and threats from the spread of communicable diseases, whether SARS, bird flu or HIV/AIDS are shared across Eurasia.

This process of Eurasian economic integration creates great opportunities for all countries of the super continent, and for the rest of the world, as the catch-up of the Eurasian integration process in overall globalization supports world-wide growth and as economic cooperation and prosperity in this region provides the basis for political stability, cooperation and peace. At the same time, this integration also presents challenges for governments and private investors. The development of infrastructure networks throughout the vast continental space requires huge investments as well as sustained efforts to maintain the infrastructure and create the regulatory and governance capacity that facilitates energy and non-energy trade and financial flows across Eurasia. Regional and sub-regional organizational structures must be created or strengthened to support the cooperative development of infrastructure and regulatory capacity, to attract the private investments needed and to help mediate the sometimes conflicting or competing interests of the many countries engaged in this historic process of economic integration of Eurasia.

The Eurasian Development Bank, together with other regional organizations in Eurasia, therefore has an important role to play in helping to create the economic links among businesses in Eurasia, to support investments in critical infrastructure, and to develop a better understanding of the role which economic integration plays in creating a prosperous and peaceful Eurasian economic and political space. I am convinced that the new Yearbook "Eurasian Economic Integration" will make a great contribution in encouraging and disseminating research on this important topic and thus will help create a knowledge base on which all participants in this historic process of the 21st Century can build.



JOHANNES F. LINN
EXECUTIVE DIRECTOR
WOLFENSOHN CENTER FOR DEVELOPMENT
AT BROOKINGS INSTITUTE