

Economic integration in Central Asia: A view of the issues

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- Analytical issues
- European experience and evidence
- Integration in remote resource rich regions
- The research agenda

Analytical issues

- Are there aggregate gains from regional integration?
- How are gains/ losses distributed across countries?
- What are the mechanisms?

- Classical theory – trade creation and diversion
 - Trade liberalization creates new trade between partners
 - BUT, *preferential* liberalisation means that imports may be diverted from the lowest cost source.
 - Need to look at comparative advantage of countries relative to their partners and relative to the rest of the world.
 - NB – trade diversion possible only if there are remaining artificial barriers on external trade.

 - Terms of trade effects – further source of gains/ losses
 - Terms of trade with rest of world
 - Internal – terms of trade between partners; a zero sum game.

Analytical issues

- 'New trade theory' – scale and competition
 - Single national markets are too small to support both large scale firms and a high degree of competition.
 - Economic integration → more intense competition
 - Some firms exit – the least efficient
 - Remaining firms larger
 - Each market supplied by more firms so more intense competition
 - Lower price and marginal cost – real income gains
 - Efficiency gain from external economies and clusters

Analytical issues

- Economic geography – centre and periphery
 - **Mobile firms:** Economic integration → firms no longer tied to national markets;
 - Relocate to locations with:
 - Low factor prices
 - Good market access
 - Standard theory; centrifugal – move to where factor prices low, so tendency to factor price equalisation
 - Econ. Geography; centripetal -- increasing returns mean that move to locations with good market access.
 - **Mobility of workers:** move in response to real wage differences – to central regions.
 - **Positive feedback effects:** cumulative causation: firms and workers go to central locations with good market access, which gives these regions larger markets.....etc..

The experience of the EU

- EU the most successful regional integration agreement
- From 6 members to 27: EEC to EU
- The four freedoms – goods/ services/ capital/ labour
- Institutions
 - European Commission – explicitly mandated to further integration
 - Council of Ministers – broad agenda so generally able to reach deals
 - Parliament – very weak check on the Commission
 - Court – power to enforce EU directives :
- Political commitment
 - Post-war
 - Franco-German axis.
 - Binds in reform in fascist and communist dictatorships of South and East Europe.

The experience of the EU

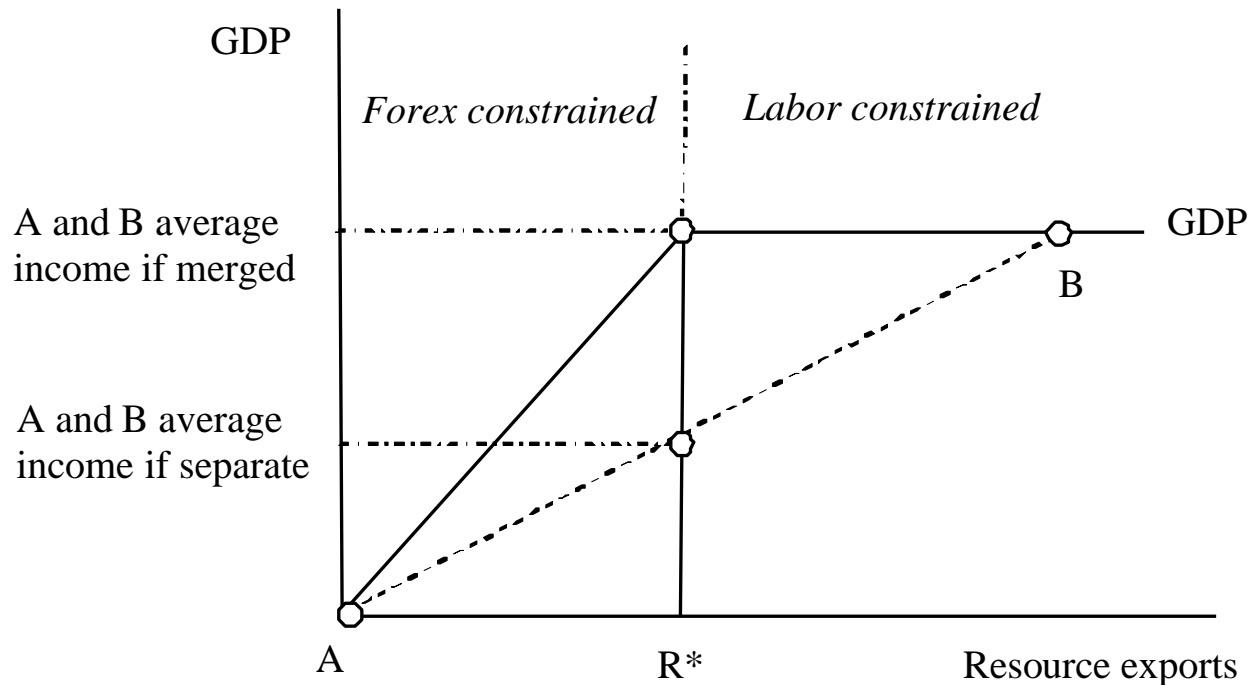
- Early stages:
 - Significant effect on trade volumes
 - Rising internal trade accompanied by rising external trade
 - Net trade creation? -- but undoubted examples of trade diversion
 - agriculture. [if you make compromises don't lock them in]
- Achieving market integration?
 - EU less 'integrated' than US – how to achieve deeper integration?
 - Single market initiative (1992)
 - Remove administrative barriers at border
 - Liberalize transport.
 - Open up public procurement
 - Mutual recognition principle
 - Open up service sectors
 - Monetary union
 - Macro economic management
 - Uniform pricing (?) and reduction of exchange risk.
 - Significant economic benefits from 'deep integration' – but impinges on sovereignty

The experience of the EU

- Convergence or divergence?
 - Some convergence of per capita income between countries
 - Success of most (but not all) peripheral economies
 - Ireland/ Finland/ Spain/ Portugal/Greece (?)
 - Transition economies
 - No narrowing of regional differences within countries
 - Cities have done well.
 - Importance of commitment to EU standards
 - Role of transfers: Small for EU; large for some small countries.
 - Role of transport networks (?)
- Policy implications
 - Political commitment and institutional structure – lacked by most regional integration agreements
 - 'Deep integration': tackle the difficult 'behind the border' issues.
 - Guarantor of high governance standards

CAREC issues

- Economic conceptualisation?
 - Remote – high trade costs shipping outside the region
 - Abundant (but unevenly distributed) natural resources
 - Extreme model:



- Income inequalities
- Merger of economies → equality and efficiency increase

CAREC issues

How to get 'merger' and benefits of integration?

TRADE:

(Economic integration for remote resource rich regions, A.J. Venables 2009)

- Limited non-resource exports outside region
- Intra-regional trade – exports from resource scarce economies to resource rich

(partition of goods according to transport costs regionally/ externally traded)

- Effects of integration
 - Increased volume and value of intra-regional trade.
 - Improvement of terms of trade of resource scarce economies
 - Gains for resource scarce economies
 - Resource rich ??
 - terms of trade loss
 - trade diversion

CAREC issues

How to get 'merger' and benefits of integration?

MIGRATION:

- From resource scarce to resource rich
- Gainers and losers
 - Gainers: Workers in resource scarce, capital in resource rich
 - Losers: Capital in resource scarce, workers in resource rich
- UNLESS, cumulative causation;
 - increasing returns in the growing central region/ country
 - Declining region/country loses scale benefits

MESSAGES:

- Economic integration a powerful way to raise income in poorer resource scarce regions.
- Difficult political economy – what do resource rich countries gain?
- Labour mobility – some small remote regions/ countries lose critical mass

CAREC issues

Research agenda:

- Patterns of trade:
 - What are the patterns of non-resource trade in the region?
 - By source and by destination; resource poor to resource rich?
 - What are the prospects for expanding non-resource exports from the region?
- Existing barriers:
 - Low tariffs – other border barriers?
- The political economy of gainers and losers
 - Coordinate internal and external liberalisation?
- Migration
 - How extensive is it likely to become?
 - Are there natural economic centres in the region?
 - How damaging for sending countries?
- Micro-economics of regional infrastructure projects:
 - Benefits trade within country/ within region/ and external trade