Enhancing Connectivity and Freight in Central Asia

Highlights of the ITF-OECD report

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UNECE SPECA Days
Ashgabat, Turkmenistan
21 November 2019
The benefits of enhanced connectivity are not automatic...

- Complex policy packages are needed – going way beyond just trade and infrastructure.

- A focus on infrastructure alone can lead to perverse outcomes.

...Nor should they be exaggerated: landlocked location and distance to markets can be mitigated but not eliminated.

- Paradox: contrary to globalisation clichés the evidence does not suggest that the economic significance of distance is declining.

Co-ordination among countries to remove (infrastructure and non-infrastructure) bottlenecks.

Addressing “soft” bottlenecks may do more to enhance regional market potential.
Unintended consequences of isolated action

Perceived problem: lack of connectivity

Weak performance

"Leaking by linking"

Infrastructure provision

Other factors not addressed (human capital, business environment, innovation)
Other reforms must advance if connectivity investments are to pay off.

Connectivity and competitiveness must be addressed together.

Growth and convergence

Innovation

Business environment

Human capital formation

Infrastructure provision

Policy responses

OECD Eurasia Competitiveness Programme
The Central Asia region incurs the high cost of being landlocked

All Central Asia countries have a large connectivity gap with their connectivity only representing from 45-60% of Germany’s index.

Connectivity indicator:
- From 85% to 100%
- From 80% to 85%
- From 70% to 80%
- From 60% to 70%
- From 45% to 60%

% of German connectivity index achieved
The cost of distance

Monetary costs create a far greater gap than mere distance might suggest.
Physical distance accounts for less than half the connectivity gap

- Drivers of connectivity gap differ but *policy can ameliorate most of the gap.*
- Focus on reducing transport cost and border crossing times.
  - In most of the region, *it is not mainly about distance.*
The connectivity gap of countries in Central Asia is around 50% of that of Germany, affecting countries’ ability to integrate into GVCs.
External developments will matter

Changes in maritime costs will affect the evolution of the connectivity gap
Current plans are not sufficient alone to maintain existing performance

Map of freight flows 2030 and potential bottlenecks

Legend
- CAREC corridors in Central Asia and Mongolia
- Capacity needs (% of increase)
  - No capacity needs
  - 0 - 10
  - 10 - 25
  - 25 - 50
  - 50 - 100
  - More than 100
Why such thick borders?

- **OECD Trade Facilitation Indicators for Central Asia.**

- **This despite significant evidence of improvement since 2010.**

- **Magnifying distance penalties.**

- **Border reform: lowest of low-hanging fruit?**
Better trade facilitation can yield benefits comparable to large-scale infrastructure improvement at lower cost.

With expanded infrastructure:
- 2050 - new infrastructure but no border crossing improvement

With better border procedures:
- 2050 - no new infrastructure but border crossing improves

Better infrastructure AND borders:
- 2050 - both new infrastructure is built and border crossing is improved
Improvements in border crossing and hard infrastructure may affect route choice: crossing times can drive traffic increases.
Thank you for your attention.