
Central Asia: Expanding Trade by Connecting with Markets

Souleymane Coulibaly, Senior Economist
The World Bank

The report in one sentence

The way to expand trade in Central Asia is by connecting leading cities and their hinterlands to leading regional markets

Outline of the presentation

- What is the problem?
- Why is it this way?
- Why focus on leading cities?
- Why incorporate their hinterlands?
- Why connect to regional markets?
- How to make it happen?



What is the problem?

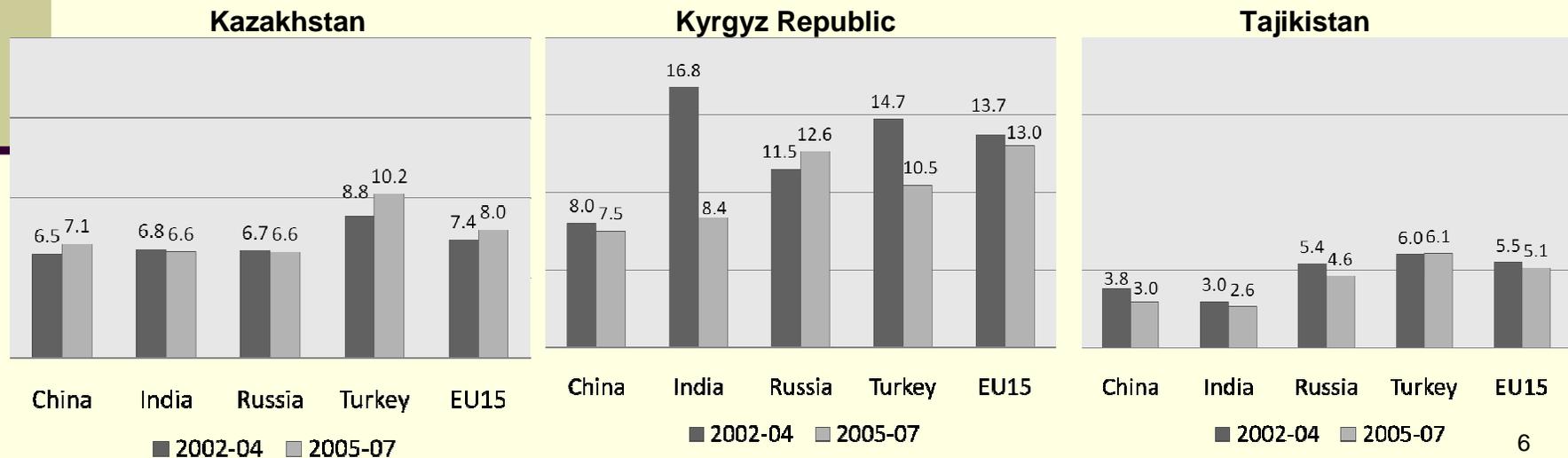
Recent export growth of Central Asia has been driven by resource-based exports

- Exports overall have increased
 - Between 2003 and 2007, the merchandise export of Central Asian countries increased 3.4 times to reach 57 billion\$
- However, non-mineral and non-crude materials exports have increased but much less than mineral and crude inedible materials
 - The former increased 2.6 times to reach 16 billion\$ while the latter increased 3.9 times to reach 41 billion\$
- Export decomposition exercise confirms that most of the increase in exports in each country over 2003-2007 comes from an increase in exports of **existing products to existing markets**

Potential exists for more non-resource-based exports to leading regional markets

- In 2007, 80% of Central Asia's non-resource-based exports consisted of:
 - Manufactured goods (68%) mainly going to EU-15, China, Russia and Turkey
 - Food products (10%) mainly going to Russia, EU-15 and MNA
- Non-resource-based exports show enough complementarity to build on with imports of leading regional markets
 - Figures for Central Asia are comparable to major Southeast Asian exporters with China
 - Lack of complementarity partially due to **unmet** demand for many of Central Asia's existing non-resource-based exports

Average Trade Complementarity with Leading Regional Markets



Recent import performance of Central Asia

- Between 2003 and 2007, the merchandise import of Central Asian countries increased 4 times to reach 50 billion\$
- Reflecting a 4 times increase in import of non-natural resource products to reach 45 billion\$
- More than 80% of the imported products were machinery and manufactured products requiring a more advanced industrial base: in 2007 the top-3 sources were EU-15, China and Russia
- In 2007, import of food (7% of non-natural resource imports) and chemicals (8% of non-natural resource imports) were coming from Russia (5%), EU-15 (5%) and Central Asian countries (3%)

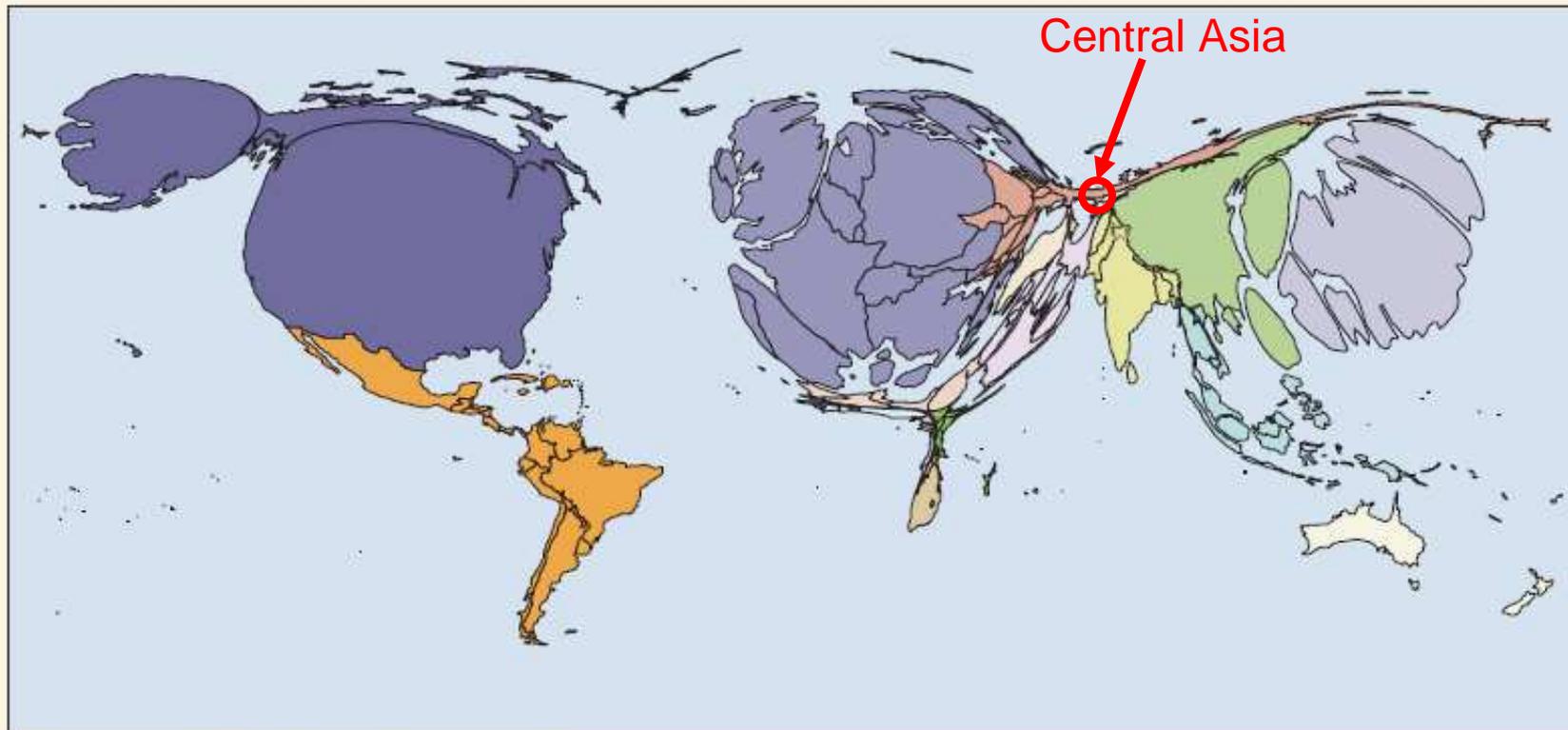


Why is it this way?

Why this way?

A look at the world's economic map

A country's size shows the proportion of global gross domestic product found there



Source: WDR 2009 team using 2005 GDP (constant U.S. dollars).

Note: The cartogram was created using the method developed by Gastner and Newman (2004). This map shows the countries that have the most wealth when GDP is compared using currency exchange rates. This indicates international purchasing power—what someone's money is worth if spent in another country.

Economic density matters

- Cities, migration and trade have been the catalysts of progress in the developed world. The stories are being repeated in the developing world's most dynamic economies.
- Developed: **Japan**'s economy is driven by Tokyo, the biggest city in the world
- Developing: **India** benefits greatly from the major role played by Mumbai, the most densely populated city in the world

Distance to economic density matters

- Developed: The **US** is the most mobile country in the world, with more than 10% of the population changing residence every year
- Developing: **China** is the most mobile developing country, with millions of people who migrated from inland to coastal areas

Division in a neighborhood matters

- Developed: The **EU** is the most integrated neighborhood in the world, with more than a third of its GDP traded mainly with neighbors
- Developing: **Southeast Asia** is also integrating, with more than 25% of its trade within Southeast Asia

Managing the three D's in Central Asia

What the report is proposing

- **Density** → *Focus on the two leading cities (Almaty and Astana in Kazakhstan, Bishkek and Osh in the Kyrgyz Republic, and Dushanbe and Khujand in Tajikistan) to explore various possibilities to jump start export diversification and trade*
- **Distance** → *Better connect the leading cities with their agricultural hinterland to unleash the region's agro-related activities' potential*
- **Division** → *Better connect the macro-regions (leading cities and hinterlands) to major regional markets (such as China, India, Russia, and Turkey) along the north–south road corridor*



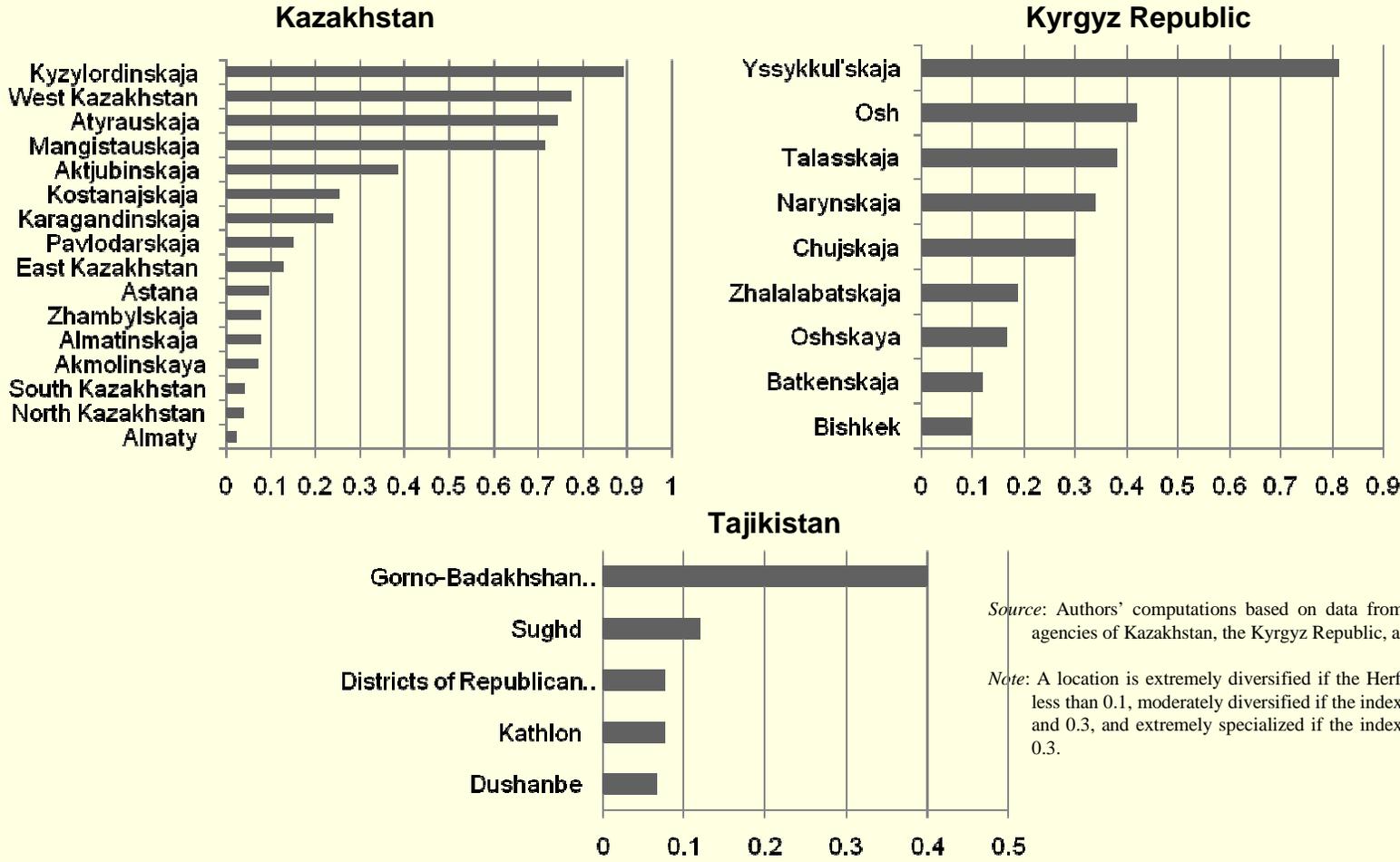
Why focus on leading cities?

Why leading cities?

- **Leading cities** are the most diversified production places in Central Asia → **They should drive the diversification strategy**
- **Leading cities** are the main exit points in Central Asia → **They should be the nodes of the regional connectivity**

Leading cities are the most diversified production places

Standardized Herfindhal Index by Oblasts
 Lower Index Scores → More Diversification

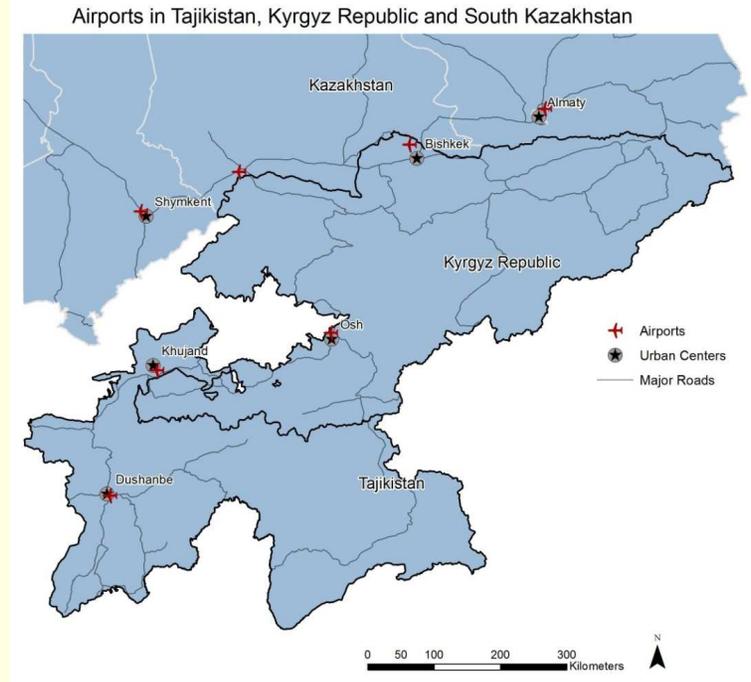
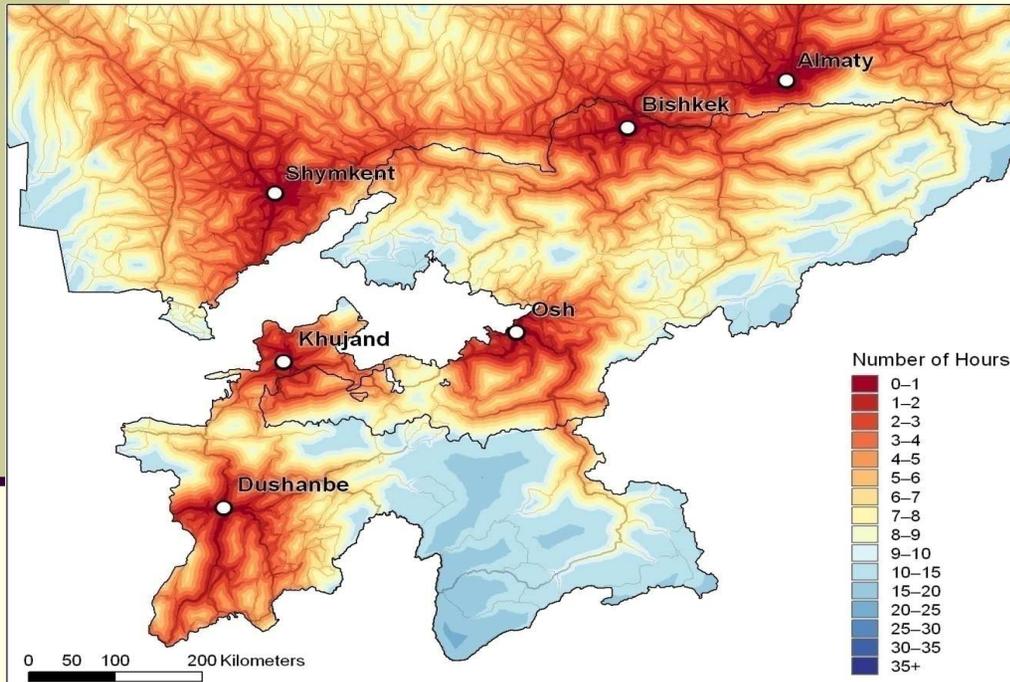


Source: Authors' computations based on data from the statistical agencies of Kazakhstan, the Kyrgyz Republic, and Tajikistan.

Note: A location is extremely diversified if the Herfindhal index is less than 0.1, moderately diversified if the index is between 0.1 and 0.3, and extremely specialized if the index is higher than 0.3.

Leading cities are the main exit points in Central Asia

- Leading cities are exit points for road travel (left) as well as air travel (right).





Why incorporate leading cities' hinterlands?

Why leading cities' hinterlands?

- Central Asia has a revealed comparative advantages in providing agro-related activities
- **Leading cities** in Central Asia are surrounded by fertile agricultural hinterlands → **They should drive the intensification of agro-related activities**

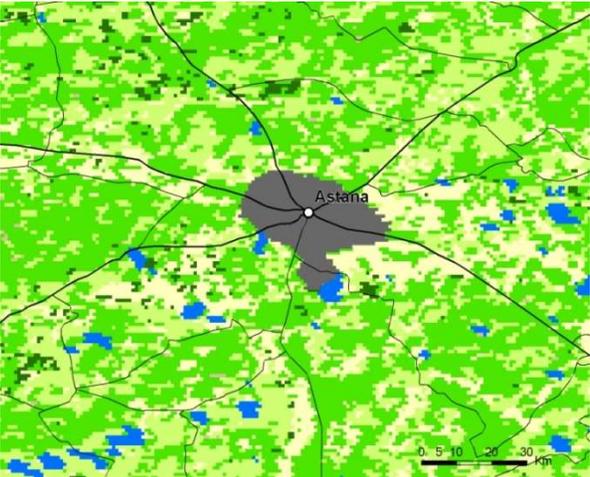
Central Asia has a revealed comparative advantage in some agro-related activities

Products	Average RCA, 2003-2007			Major Markets
	KAZ	KGZ	TJK	
Milk and cream		17.40		KAZ
Buttermilk, curdled milk and cream		11.05		CHN,KAZ,
Cheese and curd.		3.63		CHN,KAZ
Other nuts, fresh or dried		7.62	5.48	RUS,TUR
Grapes, fresh or dried.			17.92	RUS
Apples, pears and quinces, fresh.		3.75		RUS
Apricots, cherries, peaches		9.27		RUS
Other fruit, fresh.			6.47	RUS,IND
Fruit juices (including grape must)			8.39	KAZ,RUS,TUR
Men's or boys' suits, ensembles			9.35	KAZ
Women's or girls' suits, ensembles		5.49		IND,RUS
Women's or girls' blouses		16.02		RUS,TUR
Misc. ready products, including clothing patterns		2.53		KAZ,TUR

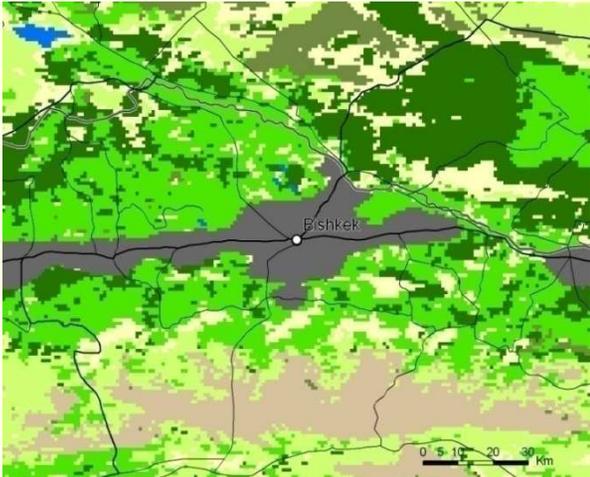
Note: RCA >1 denotes comparative advantage in that product

Leading cities are surrounded by fertile agricultural hinterlands

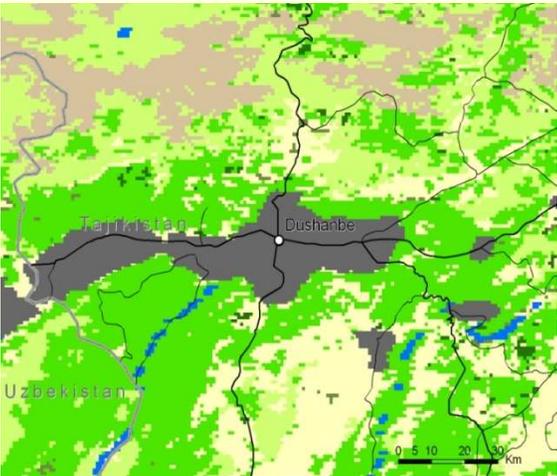
Land Cover around Astana, KZ



Land Cover around Bishkek, KG



Land Cover around Dushanbe, TJ



- Urban
- Cropland or pasture
- Agriculture with other vegetation
- Other vegetation
- Forest
- Grassland
- Non-vegetated
- Water



Why connect with regional markets?

Why regional markets?

- Regional integration can help address supply constraints, while leading regional markets can provide access to a larger demand
 - Global integration, starting with leading regional markets nearby can provide access to a larger demand
- For a successful regional integration: Start small, Think global and Compensate the least fortunate (WDR2009)

Start small, think global: the North-South road corridor, an integration vector to scale up regional supply capacity and connect to global markets



Compensate the least fortunate: unleashing the regional hub potential of Almaty

Estimated carriage costs between Almaty and major regional markets by different modes of transport, 2009

Item	Destination			
	Delhi	Istanbul	Moscow	Urumqi
Airfreight (USD per 1 kilogram) ^a	2	1.90	2.20	2
Number of carriers	2	2	3	1
Available tonnage per week (tons)	20+	20+	20+	20+
Dry trucks hauling up to 20 tons (USD/load)	n.a.	5,500	4,000	5,000
Refrigerated trucks hauling less than 20 tons (USD/load)	n.a.	6,500	4,500	6,000
Rail (dry), 24 tons in 20-foot container (USD/container)	n.a.	4,000	2,000	1,500
Rail, 55-ton load in 1 wagon (USD/wagon)	20,000	n.a.	n.a.	n.a.
Cost of storage at point of departure (Almaty) (USD/m ² /month)	n.a.	5-9	n.a.	n.a.
Processing fees (USD)	n.a.	0-200	n.a.	n.a.
Customs fees for export (USD)	n.a.	50-500	n.a.	n.a.
Bribes (USD)	n.a.	300-1,000	n.a.	n.a.
Other costs and fees	n.a.	0-50	n.a.	n.a.

Source: Data from Global Development Solutions 2009.

n.a. = Not available.

^a Costs are approximations.



How to make it happen?

How to make it happen?

Policy actions needed in all three countries

Instruments	Economic geography dimensions		
	Urban level (city)	Area level (city-hinterland)	Regional level (city-markets abroad)
Institution	Remove restrictions on services sectors		Establish North–south corridor management institution Participate more vigorously in existing regional institutions
Infrastructure	Invest in relevant infrastructure	Improve road connections between leading city and immediate hinterland	
Incentive	Policies to improve private investment climate in cities generally Some form of Special Economic Zone (SEZ) in the two leading cities	Reduce/remove restrictions on goods movement within country	

How to make it happen?

Specific policy actions needed in one or two countries

Instruments	Economic geography dimensions		
	Urban level (city)	Area level (city-hinterland)	Regional level (city-markets abroad)
Institution	Land use regulation in Astana which is rapidly urbanizing	Freedom to farm enforced in hinterlands of Dushanbe and Khujand	Tripartite transit agreement between China, the Kyrgyz Republic, and Tajikistan
Infrastructure	Scaled-up ICT infrastructure in Almaty to support its regional hub function	Modern storage facilities in hinterlands of Bishkek, Dushanbe, Khujand, and Osh	Improvement of the Osh–Batken road connection
Incentive	Establishment of regional food cluster in Almaty	Extension services to farmers in hinterlands of Bishkek and Osh	Advantageous backhaul cargo services offered by Kazakh trucks to Kyrgyz and Tajik traders

How to promote economic density in leading cities?

- **Establish in leading cities some form of industrial/export processing zone (IZ/EPZ)** where infrastructure conditions and economic regulations are relatively more hospitable, to make business environment attractive enough for domestic and foreign investors. Three bold actions needed:
 - Enforce the rule of law to secure property rights
 - Scale up the backbone infrastructure and services provided
 - Commit to a business-friendly charter (reducing burden of economic regulations)
- **Institutions to improve access to urban land for residential and business purposes** should be pursued, given Central Asia's growing urban population. This includes: urban land titling, transparency of land markets, and flexible land use regulations to adjust to the rapidly changing use of urban land

How to improve leading cities connection with their agricultural hinterlands?

- **Scale up backbone infrastructure and services** to increase mobility of production factors within the macro-regions.
 - Provide more effective infrastructure (i.e. intra and inter-urban roads and transport system, distribution services, electricity, logistics, financial services, telecommunications)
- In Tajikistan, where farmers still do not have the freedom to farm, the second policy action should be to **enforce an agricultural land market and land titles in the hinterlands of Dushanbe and Khujand** to facilitate industrial agriculture, and provide collateral to farmers
- **Targeted incentives** to boost agro-industry and processed food should be considered by policy makers

How to secure accessibility to regional markets?

- **Frame as the priority connection the North-South corridor** linking all six leading cities to Afghanistan and Russia
 - Establish a three-tier corridor management institution to manage the process and solve problems
 - Improve roads/tunnels along the North-South corridor and improve border crossings along all the borders
- **Improve country policies towards trucking and logistics services** so that they favor expansion of these distribution services and realization of Almaty's regional hub function



Let's make it happen!