13 First and Second EDB Round Tables on Regional Integration, November 2007 and May 2008

The first EDB Round Table: Perspective Areas and Mechanisms of Regional Integration of EurAsEC Member States

On November 15-17, 2007, the Eurasian Development Bank (EDB) held its first Round Table in Almaty on Perspective Areas and Mechanisms of Regional Integration of EurAsEC Member States.

Among crucial problems that have emerged in the region, the round table discussed mutual trade and mutual investment between EurAsEC member states, the globalisation of the economies of EurAsEC countries, the Central Asian water and energy sector and the development of cross-border infrastructure in EurAsEC.

“We regard the round table, which was the first international forum organised by the Eurasian Development Bank, as a practical step towards developing the EDB’s research programme and analytical work,” said Vladimir Yasinskiy, member of the EDB Board. “We consult our participants on issues relating to economic development, the efficient use of resources and the expansion of trade and economic ties. In accordance with the Strategy for 2008-2010, the Bank aims to become a leading intellectual centre offering analytical and information support to integration processes in member states.”

Well-known experts in economic and political intra-regional relations attended the round table; among them were CIS Deputy Executive Secretary Yevgeniy Novozhilov, EurAsEC Deputy Secretary-General Serik Primbetov, Director of the Institute of Economic Forecasting of the Russian Academy of Sciences Viktor Ivanter, Head of the Centre for Comparative Studies of Transformation Processes at the Institute of Economy of Russian Academy of Sciences Leonid Vardomskiy, Acting Chairman of the Executive Committee of the International Fund for Saving the Aral Sea Sulton Rakhimov, and international financial experts and EDB officials.

International experts identified a number of barriers to integration processes in EurAsEC.

“Unless we create a proper infrastructure, our sentiments about business will not lead anywhere. It will perform to its capacity only and when an energy system, a road and railway networks and many other...
things are put in place. However, this alone is not sufficient either; there is another form of infrastructure which is absolutely necessary, and that is a financial infrastructure. Without it, business – except for largest, oligarchic structures – will not be able to work,” said Academician Viktor Ivanter, director of the Institute of Economic Forecasting at the Russian Academy of Sciences.

“In the performance of banking systems in EurAsEC member states, as in the whole post-Soviet space, over the past few years we can point to both successes and persisting problems,” noted Anna Abalkina, senior research fellow at the Centre for Problems of Globalisation and Integration at the Institute of Economy, Russian Academy of Sciences. Banking systems have significantly advanced in their development over the past 15 years. For example, reforms in this sphere have led to a two-tier banking system and a growth in the capitalisation of banks in EurAsEC countries. In the past year alone, their combined assets grew by over 60%. Growing transparency and the increasing role of foreign capital, which facilitates competition on the market and improved corporate standards in the banking sector have become a positive result. Russia and Kazakhstan’s banks have been active in conducting their IPOs in recent years.

“It is premature to create a formal single financial market at the moment. It is more promising to take measures to strengthen stability of national financial systems, increase their capitalisation and develop a regional capital market,” Ms Abalkina said.

Another important aspect of integration problems was examined by Leonid Vardomskiy of the Russian Institute of Economy in his presentation entitled “EurAsEC Among Post-Soviet Integration Groups: Incentives and Barriers to Development”. He believes that, compared to other integration blocs, EurAsEC holds the most promise because of the absence of significant contradictions in the foreign policies of member states, external threats which are largely common and national leaders’ understanding that many major problems related to socioeconomic development and global positioning can be solved by expanding mutual cooperation. A recent agreement on the creation of the Customs Union as part of EurAsEC by Belarus, Kazakhstan and Russia means that “the community has switched to a two-tier system for regulating foreign trade relations” which makes it possible to address the difference in the preparedness of members for a higher level of cooperation, which emerged during integration. A group of the most developed countries in EurAsEC has completed the stage of recovery growth and is entering the stage of active modernisation, demanding deeper reforms of economic partnership. Meanwhile, other members of the community are not ready for the Customs Union because of the state of their economies. Some have not completed the recovery stage (Kyrgyzstan and Tajikistan); others are lagging behind in terms of economic institutions and foreign trade cooperation (Uzbekistan). They will cooperate with one another and with the Customs Union countries at the level of a free trade zone.
Using a two-tier model in EurAsEC is a step forward in creating a successful regional bloc. At the same time, we should be aware of a number of threats posed to this project. One of them is linked to the fact that the modernisation and diversification of the economies of Belarus, Kazakhstan and Russia are based above all on technologies obtained from third countries. This may complicate the formation of the Customs Union. Gains for national economies from the Union (the mutual openness of commodity markets, the coordination of customs, foreign trade and currency policies, scale of production and so on) may not compensate them for losses inflicted by collective protectionism (the appreciation of imports, the poor quality of regional products and so on). Another problem is created by the founding countries' desire to join the WTO. Despite declarations of simultaneous movement towards two aims, at a certain stage the countries will have to choose their priorities and this will have an impact on the terms and conditions of fulfilling the aim, which will be pushed into second place, the expert believes.

G. Kasymov of the Department of Transport Policy and Market Infrastructure at the Secretariat of the EurAsEC Integration Committee, raised the problem of the discrepancy between transport infrastructure and a growth in freight, the inefficiency of using transport potential and the inadequacy of conditions for transiting between the Asia-Pacific region and Europe through EurAsEC. The expert outlined priorities for the formation of a single transport space. This concerns drafting and implementing proposals to create rational schemes for building logistics centres; planning direct container routes; defining problems in the development of transport infrastructure to remove barriers to the free movement of transport through member states; coordinating efforts of transit countries to bring transport links in line with international standards; organising multimodal shipments; developing the main transport network and improving traffic controls within it; devising mechanisms to jointly develop transport infrastructure; implementing a set of measures to improve transport safety; and creating mechanisms to charge for the use of transport infrastructure.

Sulton Rakhimov, acting chairman of the Executive Committee of the International Fund for Saving the Aral Sea, pointed to the significance of work in the sphere of managing water resources in the region, being conducted with assistance from international organisations, and the need to pursue cooperation with the aim of finding mutually-acceptable solutions in this sphere. At this stage, issues relating to the rational use of water and energy resources are mainly discussed within the framework of two regional organisations – the International Fund for Saving the Aral Sea and EurAsEC. The fund has been dealing with these issues since 1993, whereas EurAsEC, realising the importance of this issue in the region, started dealing with it only recently. However, the activity of both organisations, as well as their desire and direct efforts, give grounds to hope that this issue will be solved soon and, therefore, help socioeconomic growth and sustainable development in Central Asia.
The following problem was raised at a follow up press conference on the results of the round table: how lawmaking on integration in EurAsEC could be combined with Russia’s policy to encourage immigration from member states, which is actually draining specialists from the neighbouring countries. Russian experts acknowledged that labour migration processes in the Community were complex and needed regulation and harmonisation. The year 2008 may be declared the year of “finding a solution to this problem”.

**The second EDB Round Table: Developing Cross-Border Infrastructure in the Eurasian Space**

The Eurasian Development Bank held its second Round Table in Moscow on 15–16 May, 2008. Heads of executive bodies of the CIS and EurAsEC and national government agencies, leading scientists and experts from Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan took part.

The meeting discussed topical regional problems relating to institutions and conditions for integration in the sphere of infrastructure and transport corridors, common energy markets, the experience and mechanisms of cooperation in the basins of cross-border rivers, the development of the Central Asian water and energy sector, financial integration and investment in cross-border infrastructure and border cooperation.

Participants in the meeting welcomed the EDB’s initiative to develop the mechanism of the round table as a regular platform for the wide, unbiased and objective discussion of acute topical and long-term topics and for preparing recommendations on expanding integration processes. Joint efforts by round table participants may well turn these meetings into an efficient and informal instrument for developing integration interaction.

The main conclusions and recommendations drawn up at the round table were:

*In the electric power sphere:*

- despite remarkable activity in the past few years, mutual investment in energy sector remains at a low level and is characterised by a unilateral structure. Practically all investment has been made by Russia and its entities. Insignificant mutual trade in electricity and the low level of mutual investment are not in line with the great potential the sector has to offer;

- the creation of a common electric power market is facing a number of barriers. A major obstacle is incomplete liberalisation on the Russian market, which is the largest market in the CIS and forms its backbone;

- the logic of a common electric power market demands expansion beyond the relatively narrow limits of the post-Soviet market. The incentive to expand the zone of the common power market is a specific aspect of this sector. Both Russia and Kazakhstan, which act as locomotives
of economic integration in the region, and other countries – Armenia, Azerbaijan, Belarus, Kyrgyzstan, Tajikistan, Turkmenistan, Ukraine and Uzbekistan – are showing an interest in this. Almost all CIS countries can gain real advantages as countries exporting and transiting power if the mechanisms for a common power market involving Eurasian giants such as China, Iran, India, Turkey and EU states are launched.

*In the sphere of transport corridors and transport infrastructure:*

The formation of a single transport space requires the following tasks to be resolved:

• drafting and implementing proposals on the best transport routes to transport passengers and freight, including the creation of rational schemes to build international logistics centres, planning direct (rapid) container routes and attracting freight that is appropriate in that particular region;

• defining the most topical problems in developing transport infrastructure with the aim of eliminating barriers to the free movement of transport in Eurasian countries and utilising the countries’ transit potential;

• coordinating efforts of transit countries to bring transport communications into line with international standards;

• developing cooperation between different types of transport and organising mixed (multimodal) shipments;

• eliminating natural barriers which have a negative impact on shipments by developing the main transport network and improving traffic control in it;

• forming financial mechanisms for the joint development of transport infrastructure;

• implementing a set of measures to improve transport safety (above all, road safety);

• creating efficient mechanisms to charge for the use of transport infrastructure.

*In the water and energy sphere:*

In the sphere of cooperation in solving the Aral Sea problem and water and energy cooperation in the Aral Sea basin, the following priorities exist:

• continuing work to ensure and restore the system of monitoring cross-border waters to take efficient measures to use and protect water resources from depletion and pollution;

• strengthening regional cooperation on the basis of international practice in managing cross-border rivers. One prospect for improving water relations between Aral Sea countries is to initiate their rapid
accession to the 1992 UNECE Helsinki Convention of the Protection and Use of Transboundary Watercourses and International Lakes;

- speeding up the development and adoption of appropriate intergovernmental agreements on the basis of a concept for the efficient use of water and energy resources in the Central Asian region drafted under EurAsEC to create efficient interstate institutional, legal and financial mechanisms for the joint use of water resources in cross-border rivers and the development of their hydrotechnical potential;

- maintaining a balance of interests between irrigation and hydro-energy generation. National interests of the countries in the upper areas are based on using the water flow to generate power, while countries in the downstream areas need it for irrigation. Their interests in the Syr Darya river are assured by the framework agreement adopted on 17 March 1998, which is not binding. An international water and energy consortium with the appropriate functions and powers could solve this problem;

- strengthening the status and efficiency of the activities of regional cooperation structures under the auspices of the International Fund for Saving the Aral Sea.