

Transport Networks, Eurasia's Economic 'Synchronization', and the End of a 'Flat' World

Jacopo Maria Pepe*

The emergence of an interconnected Eurasian transport network is the most relevant – if equally challenging – development of the second decade of the 21st century. However, the current acceleration of the infrastructure re-connection of wider Eurasia dates back earlier than the initiatives such as the OBOR, the EEU or the AIB. Indeed, its political-economic rationality is rooted in the massive geo-economic shift since the early 2000s. Using macro data on trade flows in Eurasia covering the decade 2000-2012, the author argues that far from being 'flat', the world economy is increasingly fragmented and de-synchronized, while economic and commercial re-aggregation is still taking place at more continental and regional level. Accordingly, continental Eurasia and the Indian Ocean-Asia-Pacific Ocean nexus are emerging as a self-sustaining geo-economic space, despite the geopolitical fragmentation and potential for political-military conflicts or economic crisis. The present economic downturn across Eurasia notwithstanding, in the coming decades the development of a functioning transport network remains the true impetus for overcoming the current domestic economic difficulties in many Eurasian economies, and sustainably re-shaping the economic, industrial and commercial face of the continent.



* Dr. Jacopo Pepe is a Research Fellow at Berlin Centre for Caspian Region Studies, FU-Berlin; Associate Fellow, German vCouncil on Foreign Relations, Robert-Bosch Competence Center for Eastern/Central Europe, Russia and Central Asia.

Introduction

The emergence of an interconnected Eurasian transport network is the single most relevant and challenging event of the second decade of the 21st century. The Chinese OBOR (One Belt One Road) initiative, the Russian-led Eurasian Economic Union (EEU), and the recently established AIIB (Asian Investment Infrastructure Bank) – all launched between 2012 and 2015 – herald an era of massive investment in physical transport infrastructure. The AIIB in particular is intended to become a powerful financial tool for channeling investments into countries that are less connected and have weaker logistical capacities.¹ This could help improve the economic integration of the Eurasian space, overcome the ‘transportation trap’, and ultimately boost economic growth and industrial diversification.

Doubtless, the construction and modernization of trade- and transport-related infrastructure, as well as the technical harmonization of different transportation systems, are the necessary

However, the creation of a truly functioning network of corridors across the vast Eurasian region, requires highly complex and uninterrupted supply chains and the development of modern logistics services.

first steps. However, the creation of a truly functioning network of corridors across the vast Eurasian region, requires highly complex and uninterrupted supply chains and the development of modern logistics services. Only under these conditions this region can prove itself attractive to business and increase trade. In order to become competitive, a logistical supply chain needs to be developed based on criteria as wide-ranging as “efficiency of customs clearance process, ease of arranging competitively priced shipments, quality of logistics services, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled time.”² However, modern logistics services along overland (or multimodal) transportation corridors that connect countries and regions over long distances via rail, nodes (dry ports, inland terminals) and gateways (ports) are only practically and financially feasible if the industrial production basis located in the hinterland becomes part of trans-regional value and supply chains, and/or the high-

¹ Kazakhstan, the best performing country in central Eurasia including Russia, ranked 88 out of 160 countries in the Logistics Performance Index 2014. Meanwhile, Kazakhstan and more generally all emerging Eurasian countries have all improved their ranking compared to 2007. Turkey and China are among the best performers, with a general LPI score between 3.34 and 5 while central Eurasian countries, including Russia, Central Asia and the Caucasus, have improved their general score, which lies between 2.48 and 2.75. Arvi, J., Saslavsky, D., Ojala, L., Shepherd, B., Busch, C., Raj, A. (2014) *Connecting to Compete-Trade Logistics in the Global Economy-Logistics Performance Index 2014*. (Map p.1 and LPI-Table p.8). Available at: <http://www.worldbank.org/content/dam/Worldbank/document/Trade/LPI2014.pdf>. (Accessed: 12 February 2016).

² World Bank (2016) *Logistics Performance Index*. Available at: <http://data.worldbank.org/indicator/LP.LPI.OVRL.XQ> (Accessed: 20 February 2016).

value added products need to reach final markets faster than by sea, and more cheaply than by air.

In Eurasia the task is even more challenging since it entails the re-connection of vast, sparsely populated and less diversified hinterland regions with each other as well as with industrially developed coastal areas. Hence, enabling functioning, integrated border-crossing connectivity in continental Eurasia is not simply a matter of physical connections. It is deeply interwoven with the spread of regional production-sharing networks and industrial hubs from the coast toward inland regions, and ultimately, with the ongoing transformation in value chains and production.

Transport, logistics, and supply chains are not only the backbone of trade and commerce; they are also crucial for economic diversification and growth, particularly in the energy-rich central Eurasian states.³ Thus, the economic geography of the continental space must undergo massive restructuring. This is why initiatives like the Chinese OBOR, the Russian EEU or the AIIB have catalyzed the (geo)political and geo-economic interests of different countries on transport connectivity issues and their implications for wider Eurasia. Astonishingly, however, the re-connection of wider Eurasia by transport and trade does not have its roots in these particular initiatives. Indeed, its political-economic rationale dates back to the tectonic geo-economic shift that has been taking place at the global and continental levels since the early 2000s.

The present article will focus on changes in the geo-economic structure of global and Eurasian trade, the driving factors in the accelerated Eurasian transport development of recent years. Against this backdrop, the article will analyze whether the present economic downturn across Eurasia economies will diminish or in fact strengthen the argument for further continental and sub-continental transport interconnection and economic integration.

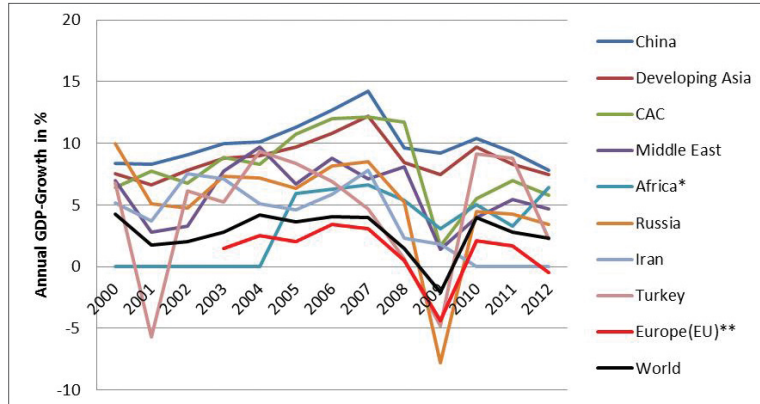
The World is not flat: The de-synchronization and fragmentation of the global economy

During the first ‘long decade’ of the 21st century, both advanced and emerging economies have experienced unprecedented economic growth, with the latter decisively catching up with the former. Between 2000 and 2012, double-digit growth in China and India as well as the above-the-average economic performance

³ Arvi, J. et al. *Connecting to Compete-Trade Logistics*, p.3.

of various emerging markets has significantly changed the geography of trade and growth, particularly in Eurasia, as shown in Figure 1.

Figure 1. Annual GDP growth: World, selected Eurasian sub-regions, and Africa (in %)



Source: World Bank Data, African Development Bank, Eurostat, various years, own graph

Today, the picture may look different – and indeed gloomier. With central banks almost powerless and monetary policy largely ineffective (notwithstanding historically very low or negative interest rates), the recent fall of commodity and oil prices, weak recovery in Europe, uncertain recovery in the US, slumping economies in China and Asia, and a diffuse recession in the former Soviet space, Russia and some emerging economies like Brazil⁴ seem to herald an era of slow global growth and ‘secular stagnation.’⁵

It seems that the global economy has never fully recovered from the consequences of the 2008 crisis. Moreover, from a Western perspective, Asia, China and the emerging economies, which drove global growth and demand in the aftermath of the crisis, are now suffering from its consequences. This brings many to re-discover – if under completely different circumstances – Thomas Friedman’s famous definition, and assert that paradoxically the world has become ‘flat’, with geography and history becoming

4 OECD (2016) *Global Economic Outlook and Interim Economic Outlook- Stronger growth remains elusive: Urgent policy response is needed*. pp. 2-4. Available at: <http://www.oecd.org/eco/economic-outlook.htm> (Accessed: 23 February 2016).

5 Summers, L. H. (2016) ‘The Age of Secular Stagnation-What It is and What to Do About It’, *Foreign Affairs*, 95(2), pp. 2-9.

increasingly irrelevant.⁶

According to this vision, the global economy has grown truly interconnected – even in a period of economic downturn – and the global mechanisms of transmission of crisis and recoveries among the world regions are still functional. After a decade of unprecedented global economic growth and trade expansion, what follows seems to be an age of global contraction, with emerging and advanced economies performances converging toward the economic bottom. Meanwhile, no region has become pivotal, nor emerged as a pillar of both economic and political power. Accordingly, the geopolitical risks of this new world do not come from the emergence of a revanchist single and coherent economic-political bloc but rather the combined effects of state implosion and sub-state conflicts on the one hand, and great-power interstate wars on the other.

After a decade of unprecedented global economic growth and trade expansion, what follows seems to be an age of global contraction, with emerging and advanced economies performances converging toward the economic bottom.

These risks are respectively fueled by the spread of non-state terrorism and sectarian warlords, and by the new assertiveness of economically declining but politically rising powers like China and Russia: a zero-growth global economy in a non-polar world order, exposed to wars, chaos and collapse. From the point of view of Brussels or Washington, this analysis is both reasonable and worrying. However, given the perception of the past years about their own decline in terms of economic and political power in the face of the ‘rise of rest’, as Paragh Khanna famously described the rise of non-western powers⁷, the present fragility of the ‘rest’ is extremely comfortable for both Washington and Brussels. This could change if this analysis proves wrong, as this paper will argue

Indeed, by confusing between short-midterm economic and political risks and long-term trends, this analysis dramatically misses the geo-economic (and geopolitical) tectonic transformations witnessed over the past decade. Looking at the shift in the geographic distribution of trade flows and in supply and value chains, the world can hardly be considered ‘flat’. There is little doubt that the large imbalances in GDP growth between advanced and emerging economies that characterized the past decade fell after the crisis of 2008-2009. Advanced and emerging

Indeed, by confusing between short-midterm economic and political risks and long-term trends, this analysis dramatically misses the geo-economic (and geopolitical) tectonic transformations witnessed over the past decade.

⁶ Friedman, T. (2005) *The World Is Flat: A Brief History of the Twenty-First Century*. New York: Farrar, Strauss and Giroux.

⁷ Khanna, P. (2008) *The Second World: How Emerging Powers Are Redefining Global Competition in the Twenty-first Century*. New York: Random House.

economies are now converging on a declining trend. While the effects may be similar, the causes are not: the 2008 financial and economic crisis – which originated in advanced economies – can only partially explain the present slowdown in emerging economies in Eurasia and Asia.

Indeed, despite the wider trend of declining growth, Asia – and especially China – still retain stronger growth rates and economic dynamism than advanced economies in Europe, the US, or Japan, which are still struggling to regain momentum, failing to re-establish themselves as world economic drivers.⁸ While China's transition crisis and the "new normal growth" may have ended the country's role as a global growth engine, Beijing – together with the emerging role of New Delhi – retains a major function in influencing and synchronizing regional and continental economic dynamics along the Indian Ocean - Asia-Pacific Ocean nexus.

Thus Eurasia's economic crisis seems less related to developments in the West, and more the consequence of the 'transition processes' in China and Asia. Parallel to falling oil prices – which have hit energy-exporters like Russia, Central Asia and the Middle East – the consequences of Asia's recent slowdown may – if they endure – prove more severe for Eurasian energy producers than the post-2008 economic recession in the West. Today, when each of these countries is experiencing an economic slow-down that requires a new and more sustainable economic model, global financial and economic developments may still pose challenges and risks. For instance, the Fed's decision to increase interest rates has increased the capital outflows from some emerging countries, inverting the trend that has fueled their debt-financed growth over the past decade. However, with growth in the West stagnating, solutions to structural problems will come first and foremost from within their continental and regional environments, rather than from the further integration with global markets. Indeed, while the powerful forces unleashed by the first stage of globalization have seen new national and regional players on the world stage and the expansion of global markets, the consequences of the 2008 financial and economic crisis are, paradoxically, leading to the geo-economic fragmentation of the world economy in macro-regions, whose development is increasingly desynchronized.

⁸ The OECD (Organization for Economic Cooperation and Development) forecast for 2016 and 2017 predicts China and India to grow at 6-6.5% and 7.3%-7.4% respectively, and the rest of the world at 2.5%-3.1%, confronted with a growth in advanced economies around 2% in the US and 1.4-1.7% in the Euro-Area. OECD (2016) *Global Economic Outlook*, p. 1.

As paths of economic growth and recession along with financial and macro-economic policies among the biggest world economic players (i.e. China, Japan, the US and Europe) de-synchronize at the global level,⁹ a process of re-synchronization and re-aggregation of economic and commercial dynamics is taking place at the continental and regional level.

Shifting trade flows and the emergence of a self-sustaining Eurasian sub-system

Over the past decade, energy-exporting countries in Eurasia and the Middle East have increased their connections with the Asia-Pacific region, deepening commercial and financial ties that have largely bypassed the West. This marks the emergence of an increasingly autonomous economic-commercial sub-system, stretching from the Middle East, Turkey and Iran to Asia, via Russia and central Eurasia. The dynamics of this mega-continent, which consists of both maritime and continental dimensions, are increasing independent from the North-Atlantic space.

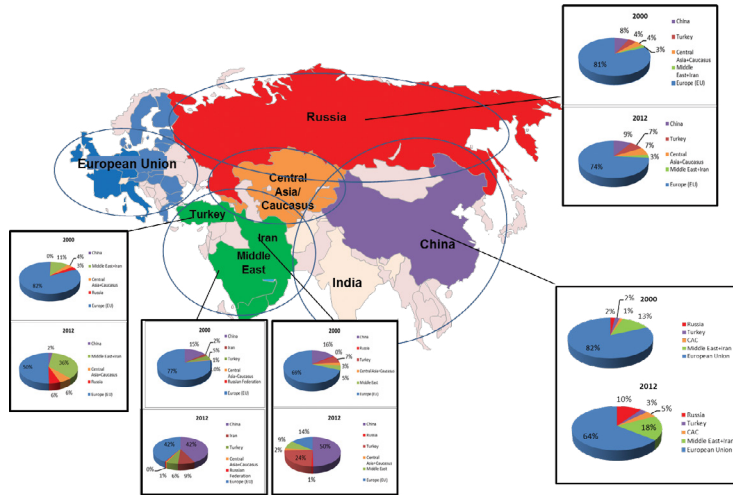
In the past fifteen years, the energy-driven trade links between the Persian Gulf and Northeast Asia have begun to catalyze a much larger, truly continental process. This has involved an increasing number of regional and continental players, from Russia to Kazakhstan, to Turkey and Iran, and to India and China.

Large energy-exporting countries like Russia, Kazakhstan, Turkmenistan and Iran have – to varying degrees – decisively re-oriented their energy exports to the Asia-Pacific space.¹⁰ The affluent Asian markets are receiving both Middle Eastern and Russian/Central Asian energy resources. While Europe remains the main destination for Russian gas, Moscow has attempted to rebalance its overreliance on Europe by deepening ties with China and Asia. Meanwhile the value of Iranian, Saudi Arabian, Kazakh, and Turkmen gas and oil exports to China (and Asia) has dramatically increased. Overall, while the EU still has the leading share of Eurasian countries' exports, this share has significantly decreased in the past decade, in favor of intra-Eurasian trade, as the map shows.

9 Charrel, M. (2015) 'Les trois défis des banquiers centraux.' *Le Monde économie* Available at: http://www.lemonde.fr/economie/article/2015/12/19/les-trois-defis-des-banquiers-centraux_4835157_3234.html?xtmc=commerce&xter=183. (Accessed: 26 January 2016).

10 Calder, K. E. (2012) *The New Continentalism, Energy and Twenty-First Century Eurasian Geopolitics*. New Haven and London: Yale University Press.

Figure 2. Exports to selected Eurasian countries/sub-regions, share disaggregated by region, 2000 and 2012.



Source: WTO, International Trade Statistics, various years, author's map and calculations

Accordingly, if we look at the changing geography of trade flows in wider Eurasia during the last decade, two effects of the changing nature of trade and production can be observed. The first is the further acceleration of intra-regional trade aggregation in Asia and Europe, and the second is the strengthening of ties among regional poles at the sub-continental and intra-continental level.

Kent Calder points to this correlation between the three dimensions, arguing, “[t]hese emerging relationships are sub-regional in character. They by no means create, in the aggregate, a cohesive Eurasian economic, political or geostrategic entity, however much they foster long-term interdependency.”¹¹

The re-emergence of these long dormant intra-Asian connections among these main actors is now expanding well beyond the energy sector, as energy-exporting countries in Eurasia and the Middle East, as well as countries like Turkey and Iran, are becoming the final destinations for China's manufacturing exports.

Contrary to what is commonly stated, China's final market diversification started well before the launch of the OBOR-Strategy in 2013. The goal to export its own industrial overcapacity

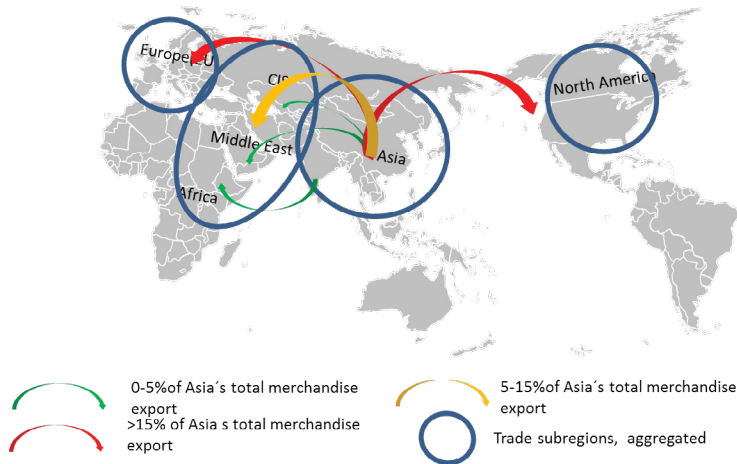
¹¹ *Ibid*, p.200.

to Eurasian markets in order to ease the transition to a more consumption-led economy based on domestic demand rather than exports has only become part of Beijing's strategy in the past few years. That said, it is at least since 2006-2008 that China has sought to diversify its final markets, looking to Eurasia, the Middle East and Africa, in order to re-balance its overreliance on Western markets.

Contrary to what is commonly stated, China's final market diversification started well before the launch of the OBOR-Strategy in 2013.

With China taking the lion's share of Asia's manufacturing exports, the collective share of Asia's exports to the less-connected areas of former Soviet Eurasia, the Middle East and Africa was about 15% in 2012, as Figure 3 shows. This trend has continued during the years 2013-2015, as confirmed by WTO exports statistics.¹² The attempt to move along the value chain and produce more value-added goods will consolidate this process and establish China in the Eurasian and Middle Eastern markets as not only an exporter of industrial and cheap consumer goods, but as a potential alternative to high-tech products from the West.

Figure 3: Asian manufacturing trade exports by destination, 2012



Source: WTO, International Trade Statistics, author's map and calculations

¹² World Trade Organization (2015) *World Region Exports-Asia*. p.7. Available at: https://www.wto.org/english/res_e/statis_e/world_region_export_14_e.pdf. (Accessed: 10 February 2016).

Eurasian trade flows, particularly between the Middle East and China/Asia, are becoming increasingly bi-directional, including trade in final and industrial/intra-industrial goods. Thus it seems that new and more enduring trade relations have emerged across the continent: countries as varied as Turkey, South Korea, India, Pakistan, Dubai, Burma, and Mongolia are refocusing their attention toward regional and continental connectivity as a way to profit from this 'Eurasian momentum'.

As a consequence, while oil and gas trade retains its relevance in defining intra-continental trade, technological innovations and massive investments in the rapidly developing national, regional, and trans-regional transport infrastructure and logistics networks (rails, roads, ports and dry ports) are paving the way for the re-connection and physical integration of the Eurasian space (both on the sea and overland).

As a consequence, while oil and gas trade retains its relevance in defining intra-continental trade, technological innovations and massive investments in the rapidly developing national, regional, and trans-regional transport infrastructure and logistics networks (rails, roads, ports and dry ports) are paving the way for the re-connection and physical integration of the Eurasian space (both on the sea and overland). This is the case not only along the traditional Western Europe-Russia/Post Soviet Space or Europe-Asia axes, but also at intra and sub-continental level, as deepening ties between the Gulf and the CIS demonstrate.¹³

The continental space stretching from Eastern Europe to Russia, the Caucasus, Central Asia and continental China is now not only increasingly interconnected but is also becoming part of Eurasia's maritime subsystem, stretching from the Middle East to India, China and Asia.

Hence, sub-regional, intra-regional, and continental trade flows are gaining relevance over transcontinental or global level. New physical transport infrastructure connects competing but increasingly interdependent geopolitical poles.

This process is leading to a economic and political re-configuration of the Eurasian space, which is now both geopolitically more fragmented and geo-economically more interdependent. Against this backdrop, the economic integration of wider Eurasia will deepen and enter a more advanced – as well as more challenging – stage.¹⁴

At the core of this trend is the emergence of a new geography of trade and industrial production. Indeed, the fragmentation of

¹³The Economist Intelligence Unit (2016) *A Common Wealth: Building Gulf-CIS ties A report by The Economist Intelligence Unit* Available at: <http://www.eiuperspectives.economist.com/sites/default/files/ACommonWealthBuildingGulfCISSties.pdf>. (Accessed: 23 February 2016).

¹⁴Kaplan, R. (2012) *The Revenge of Geography: What the Map Tells Us About Coming Conflicts and the Battle Against Fate*. New York: Random House.

the global economy and the deepening ties at continental and regional levels are determining a geo-economic re-structuring of the entire Eurasian space. At the center of this is the crucial issue of transport infrastructure connectivity, both at national and international levels: railways and rail transportation are increasingly crucial for the future dynamic integration of the Eurasian continent.

Trans-Eurasian transport corridors as catalyst of wider Eurasian economic interconnection

Transcontinental long-distance rail services are mainly used for transporting high-value products between Europe and China such as white goods, auto parts, and electronic communications devices. The recently introduced rail services between China and Spain have shown that these services are increasingly profitable even for lower valued-added, small consumer goods like toys. However, freight volumes on overland rail routes will remain relatively limited in comparison to maritime trade, and thus will not challenge the supremacy of the latter.

Indeed, today, more than 90% of China-Europe and Asia-Europe trade is transported by ship, using the well-established sea-trade lines. Among the three main transportation routes (North America-Asia, Europe-Asia and Europe-North America), containerized transport via the trans-Eurasian route increased steadily between 2009 and 2012, slightly overtaking containerized transport via the transpacific route.¹⁵ However, volumes traded along transcontinental routes are not the only factor within what is a much broader phenomenon. Indeed, the changing dynamics of Eurasian connectivity offer opportunities to re-integrate overland transportation with coastal and maritime routes for intra-Eurasian trade, beyond the Europe–China overland routes. Indeed, at the sub-continental level, intra-Eurasian containerized transport (linking Asia, Africa, the Middle East and developing Asia) and containerized transport via the subsidiary, non-mainline East–West route rose by 6.2% and 3.7% respectively in 2012.¹⁶

Indeed, the changing dynamics of Eurasian connectivity offer opportunities to re-integrate overland transportation with coastal and maritime routes for intra-Eurasian trade, beyond the Europe–China overland routes.

According to data from Deutsche Bank, while container transport

¹⁵ UNCTAD (2013) *Review of Maritime Transport 2013*. p. 25 (Figure 1.5b). Available at: http://unctad.org/en/PublicationsLibrary/rmt2013_en.pdf (Accessed: 10 February 2016).

¹⁶ As reported by UNCTAD : ‘Reflecting intensified interregional trade volumes the average size of ships deployed on these routes increased markedly. With consumer demand in developing regions set to grow, markets in the “South” will continue to drive global container trade growth.’ *Ibid.*

between Europe and Asia, and Asia and North America stagnated by 0-1% between 2012 and 2013, container transport between Asia and Africa, and Asia and the Middle East rose by 11% and 8% westbound, and by 10% and 8% eastbound, respectively, in the same period. This underscores the increasing relevance of sub-continental, intra-Eurasian connections beyond the liquid energy trade.¹⁷

This has opened up opportunities for continental Eurasia to functionally integrate as a complementary transit space, offering intermodal solution between Asia and the Middle East. In this respect, while implementing the transcontinental connections offering ‘door-to-door’ services from Asia to Europe is essential, developing hinterland-port rail connections as well as logistical services serving as feeder-services to and from the ports (and thus to and from world markets) will be the real game-changer at the continental and regional level. Hence, a new map of Eurasia is slowly emerging, crisscrossed by at least three main trans-continental overland corridors, but integrated by a rising number of intra-continental arteries. The original Trans-Siberian mainline is the backbone of the northern corridor connecting north-eastern China to Europe via Belarus and Poland.

Hence, a new map of Eurasia is slowly emerging, crisscrossed by at least three main trans-continental overland corridors, but integrated by a rising number of intra-continental arteries.

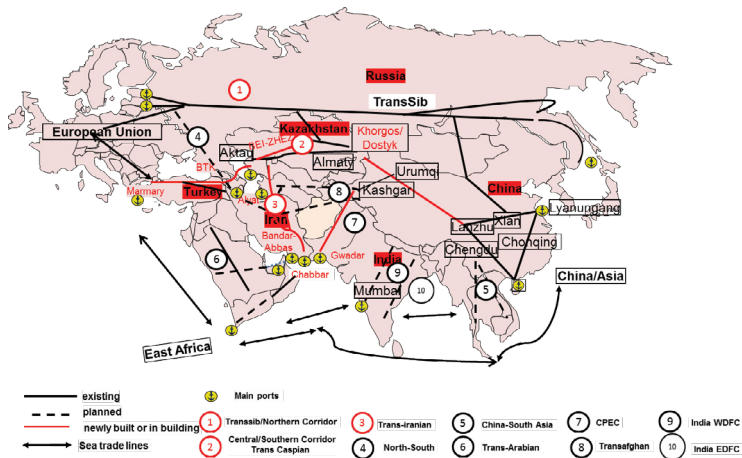
Since 2008, regular block train services have been travelling along the northern corridor. However, it is the new industrial hubs and special economic zones in central and western China like Chongqing, Chengdu, Kunming, Kashgar, and potentially Urumqi and Khorgos, have made the ‘southern/central’ corridor through Kazakhstan more attractive for business. Since 2012, rail services between central China and Europe via Kazakhstan have boomed, growing by more than 50%. A more recent development, facilitated by the end of the sanctions regime in Iran and the modernization of the Trans-Caucasus route from Azerbaijan to Georgia and Turkey, is the establishment of two further alternative routes. This run along the third, southern corridor; bypassing Russia, these routes run either from China and Kazakhstan through the Caucasus, or via Central Asia southward to Iran.

In 2016, German forwarder DHL has introduced a new train service along the Caucasus route. In addition, following the visit

¹⁷ Deutsche Bahn (2014), *Deutsche Bahn Welt-10/ 2014*. Berlin: Deutsche Bahn, pp.8-9. In 2012 5 million TEU were shipped via the Asia–Middle East–Asia trade route (more than 2/3 westbound), which accounts for 1/3 of all Asia–Europe transshipped goods (in TEU), and is slightly less than volumes shipped between Northern Europe and North America. World Shipping Council (2013) *Top Trade Routes (TEU shipped)*, Available at: <http://www.worldshipping.org/about-the-industry/global-trade/trade-routes>. (Accessed: 7 February 2016).

of President Xi to Iran, the first container train between China and Iran via the newly constructed Kazakhstan-Turkmenistan-Iran rail line has been tested. While designed to enable China’s OBOR initiative to connect to Europe, the central and southern corridors are becoming part of an intra-Eurasian network, its aims to serve as a complementary network to the maritime routes linking East Africa, the Middle East and Asia, hence combining east-west with north-south corridors, as shown in Figure 4.

Figure 4: Eurasian transport sea, rail and intermodal routes (completed, under construction, planned corridors, 2015).



Source: The author’s own map

With the end of the economic boom that was driven by the long period of high oil prices, and the slowdown of Asian and Chinese economies, the development of trans-border connectivity and domestic transport infrastructure and logistics is closely interwoven with the need for diversification, modernization and/or transformation of the economic model of each Eurasian country, including China.

The massive investments in China’s transportation and rail network, matched by the shift in industrial activities toward the rapidly growing and industrializing central and western regions, are among the main reasons for the revitalization of continental transportation routes. However, since the beginning of the second decade of the 21st century, there have been similar attempts by key countries like Russia, Iran, Turkey and Kazakhstan. All these countries – under different conditions – are aiming to fol-

The massive investments in China’s transportation and rail network, matched by the shift in industrial activities toward the rapidly growing and industrializing central and western regions, are among the main reasons for the revitalization of continental transportation routes.

low the Chinese example in order to reorient their own domestic transport network toward Asia, exploit the transit potential of goods from and to China and Asia, and use this external development to industrialize, modernize and diversify their economies.

As a consequence, the functional role of the main Eurasian players and their strategies has changed dramatically. China has provided the major impetus during the first stage of this development. With its economic power together with its market and route diversification strategy, the country is the main catalyst of Eurasia's re-connection.¹⁸ Now, with the transformation of its economic model, Beijing will not be able to realize this vision without the active and willing participation of other Eurasian partners.

For its part, Russia, while clearly at an advantage due to its territorial extension along the northern Eurasian route and as a major regional player, is constrained by its structural economic weakness and chronic dysfunction.

For its part, Russia, while clearly at an advantage due to its territorial extension along the northern Eurasian route and as a major regional player, is constrained by its structural economic weakness and chronic dysfunction. Thus it cannot act as the sole integrating force, as the challenges faced by the EEU testify.¹⁹ Against this backdrop, new regional and continental players are entering the Eurasian geo-economic equation.

In Central Eurasia Kazakhstan and Azerbaijan are emerging as overland trade hubs, attempting to diversify their access to the world markets and their economies. In maritime Eurasia- along the Indian Ocean/Pacific Ocean- India and Japan nexus,²⁰ they are re-focusing their foreign and domestic investment strategies toward the transportation sector, aiming to re-synchronize their economies with the continental trends. Meanwhile in West Asia and in the Middle East, Iran and Turkey, facing the disintegration of the regional order, are willing (indeed,

18 The National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China (2015) *Vision and actions on jointly building the silk road economic belt and the 21st century maritime silk road* Available at: http://news.xinhuanet.com/english/china/2015-03/28/c_134105858.htm (Accessed: 8 February 2016) ; Government of the People's Republic of China (2016) *China's Arab Policy Paper*. Available at: http://news.xinhuanet.com/english/china/2016-01/13/c_135006619.htm (Accessed: 26 January 2016).

19 Karaganov, S. (2015) *A Turn to the East: Development of Siberia and the Far East in the Context of Strengthening the Eastern Vector of Russia's Foreign Policy*. Moscow: Mezhdunarodnye Otnoshenia Publishers. Published in Russian.

20 Patil, S. (2015) 'After Modi's Visit, Is Central Asia Open for Indian Business? Prime Minister Narendra Modi's recent visit to Central Asia is an important moment for Indian business to increase its presence in the region.' Available at: <http://thediplomat.com/2015/07/after-modis-visit-is-central-asia-open-for-indian-business/> (Accessed: 26 January 2016); Walker, J. W., Azumaa, H. (2015) 'Mr. Abe Goes to Central Asia: An Opportunity for Advancing Tokyo's New Thinking.' Available at: <http://nationalinterest.org/feature/mr-abe-goes-central-asia-opportunity-advancing-tokyo%E2%80%99s-new-14215> (Accessed: 26 January 2016).

forced) to enter the Eurasian transport equation, albeit with different agendas.

Ankara is increasingly isolated in the region; its relations with both Iran and Russia are at odds and those with the West are critical. Deepening trade and transport ties with China and Asia via Central Asia seems to be the only means of escaping regional isolation. Iran, by contrast, is re-entering the Eurasian equation as fully-fledged member of the international community after a decade of isolation. Tehran is eager to fully exploit its geographic position and its geo-economic assets to open up to western business while also deepening trade relations with China, India, and Asia.

Conclusion

A wide-ranging analysis demonstrates that in a world with diffuse and persisting slow growth, major geopolitical risks may stem from the rising but fragile powers that tend to flex their muscles out of weakness,²¹ or, from the destabilization and disintegration of entire regions, where a mix of economic stagnation and sectarian politics is undermining stability. The present economic downturn across Eurasia and Asia is a case in point: from the civil wars in Ukraine and Syria to the mounting tensions in the South China Sea, geopolitical conflicts seem to be spreading in parallel to weakening economic dynamics in China and Asia, or recession in Russia and the former Soviet space.

This paper has shown that while emerging powers and markets in wider Eurasia – including Asia and the Middle East – have entered a period of economic uncertainty and potential political instability, the West is not able to assume its traditional role as political-diplomatic stabilizer and global economic shock-absorber. In the past years, the transatlantic relation between EU and the US has grown increasingly tense, less value-oriented and more pragmatic. The role of the Euro-Atlantic as a coherent economic and political-diplomatic space is gone.

The US is keen to take on its new role as Pacific country vis-à-vis China while confronted with uncertain economic recovery and new-isolationism. For its part, the EU faces internal economic weakness, destabilization, and war at its southern and eastern

²¹ Kaplan, R. D. (2016) 'Eurasia's Coming Anarchy - The Risks of Chinese and Russian Weakness.' *Foreign Affairs*, 95(2), pp.33-41.

borders, in addition to a potentially explosive migration crisis. Paradoxically, both the US and EU must react to events that originate in the wider Eurasian space, with few options to jointly re-assess their economic and political centrality.

Indeed, the world is far from 'flat'. Moreover, it is characterized by a process of accelerated economic de-synchronization among the three great geo-economic poles: Asia; Europe; and the US. Meanwhile, in the past decade, the integration of wider Eurasia – driven primarily by Asia - has led to the synchronization of the economic dynamics across a vast space, encompassing the Indian and the Pacific Oceans as well as continental Eurasia. These three separated sub-systems are now beginning to take shape as a single, coherent and self-sustaining geo-economic space, despite their geopolitical fragmentation and the potential for political-military conflicts or economic crisis. Against this backdrop, in the coming decades the development of functioning transport networks in this poorly connected but geo-economically integrating macro-space will prove the catalyst both for overcoming the present domestic economic constraints in many Eurasian economies and re-shaping the economic, industrial and commercial face of the continent.