

tepaV

Economic Policy Research Foundation of Turkey

Operationalizing OBOR: A perspective from Turkey

**OBOR Think Tank Forum
Beijing
11 December 2015**

How would you ship your cargo from Istanbul to Karachi or Mumbai?

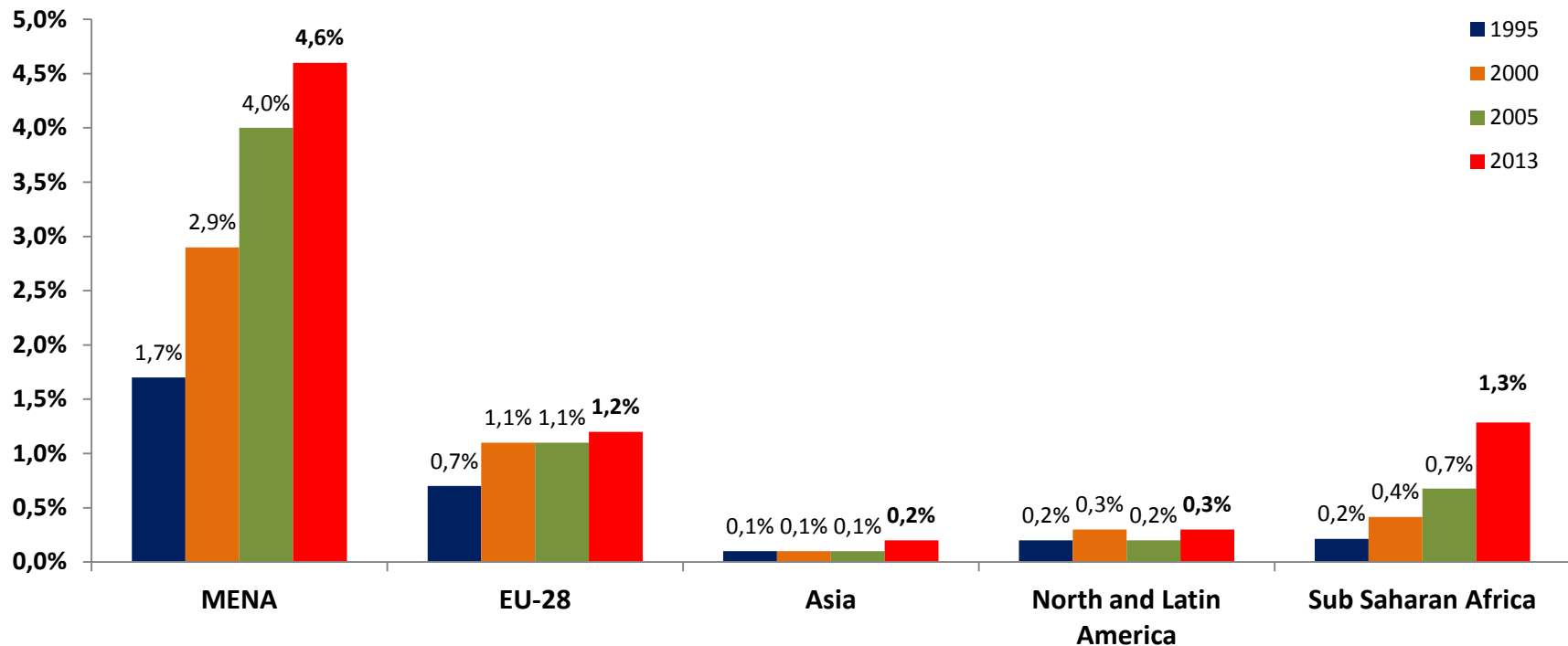


Agenda

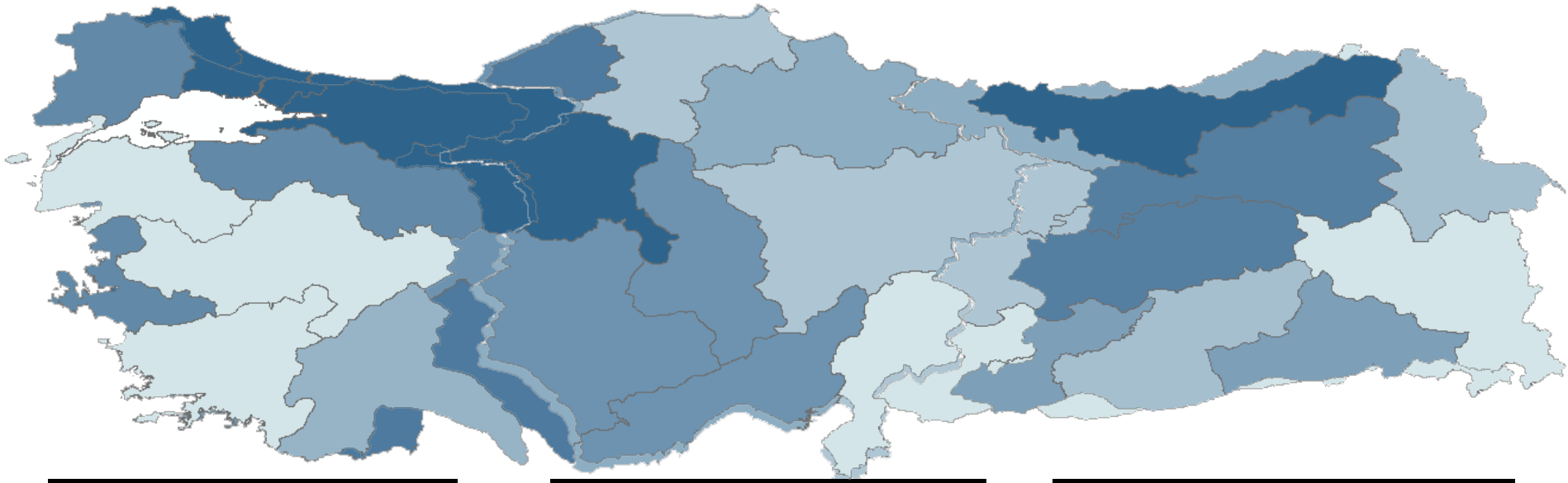
- Turkey's OBOR perspective
 - Export penetration
 - Regional development
- What are the connectivity issues along the OBOR countries?
 - Hardware / software
- B20/T20 perspectives
 - Infrastructure investment ecosystem
 - Trade facilitation
- Pilot ideas
 - E-export facilitation
 - Targeted investments on bottlenecks: Caspian crossing

Turkey's export market penetration is directly linked to proximity: connectivity matters

Turkey's share in world markets (Turkey's share on region's total import %
(1995-2000-2005-2013))



A functional Silk Road and normalization on its Eastern neighborhood may help revitalize Turkey's lagging Eastern regions



\$11.900

x 1.67

\$8.050

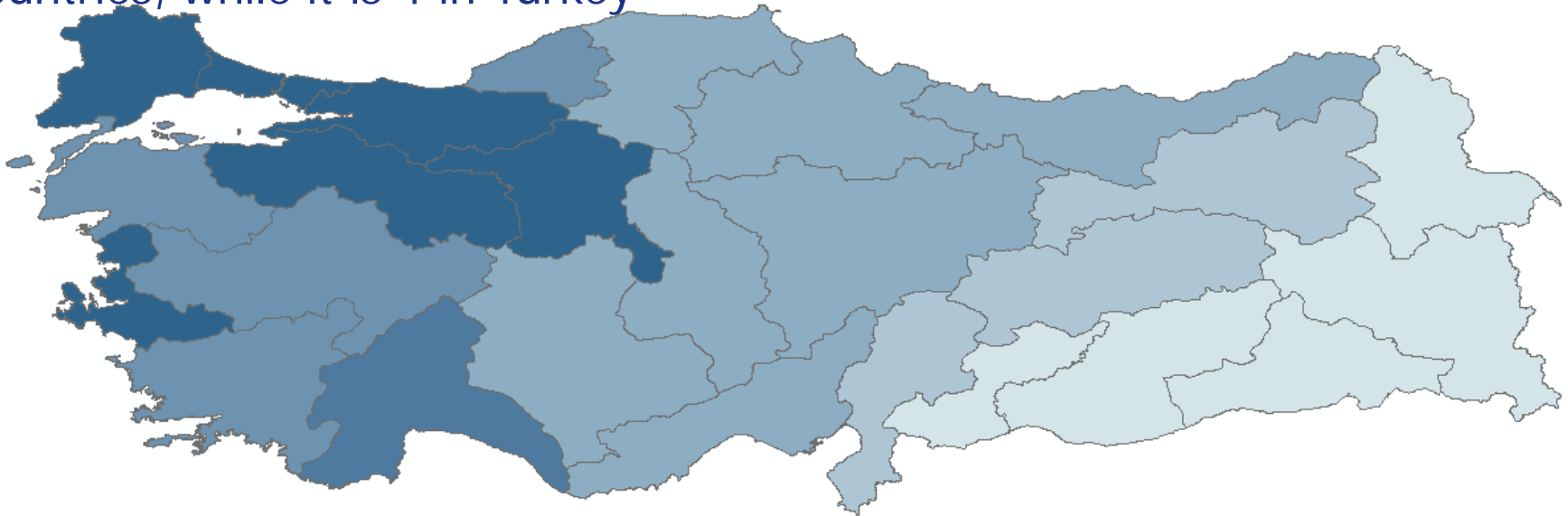
x 2.02

\$4.950

x 1.89

Implications of the Silk Road for regional disparities in Turkey

The income ratio of richest to poorest region is between 1-2 in OECD countries, while it is 4 in Turkey



GVA per capita (2011)	\$9.244
The ratio of highest income region to the lowest income region	x 3.94

+\$11000

**\$9500-
110000**

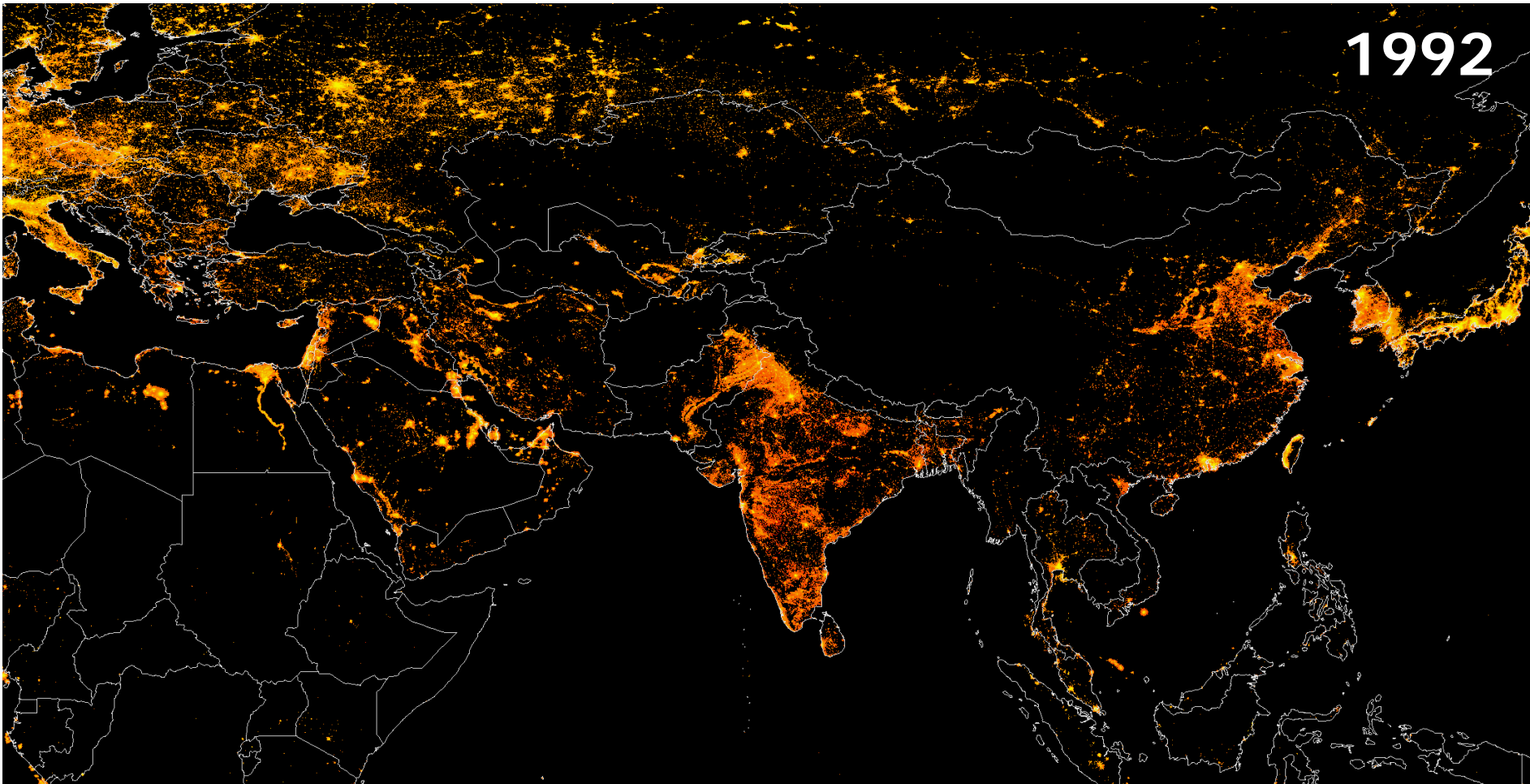
**\$8000-
9500**

**\$6500-
8000**

**\$5000-
6500**

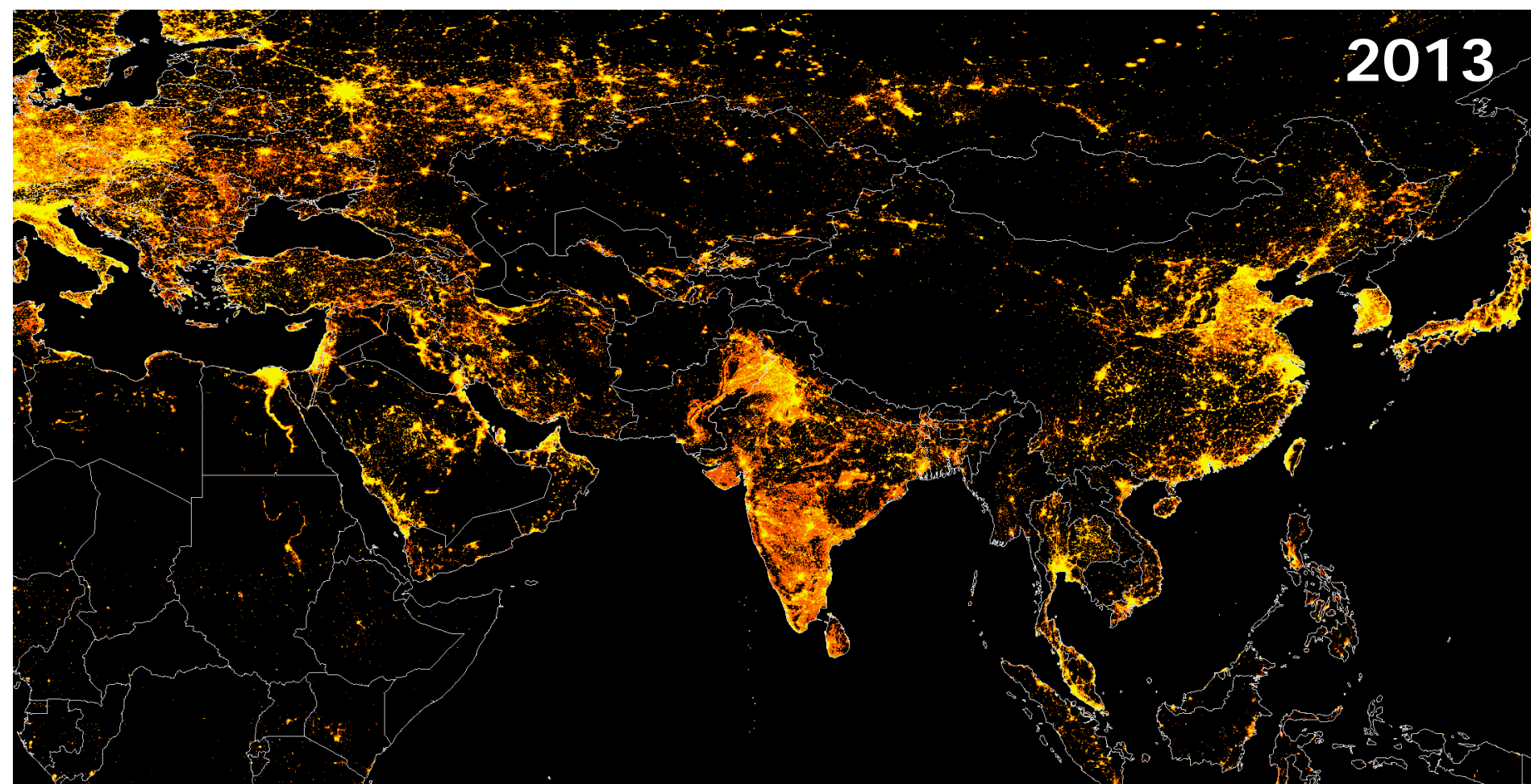
**\$3500-
5000**

What do we talk about when we talk about One Belt One Road?



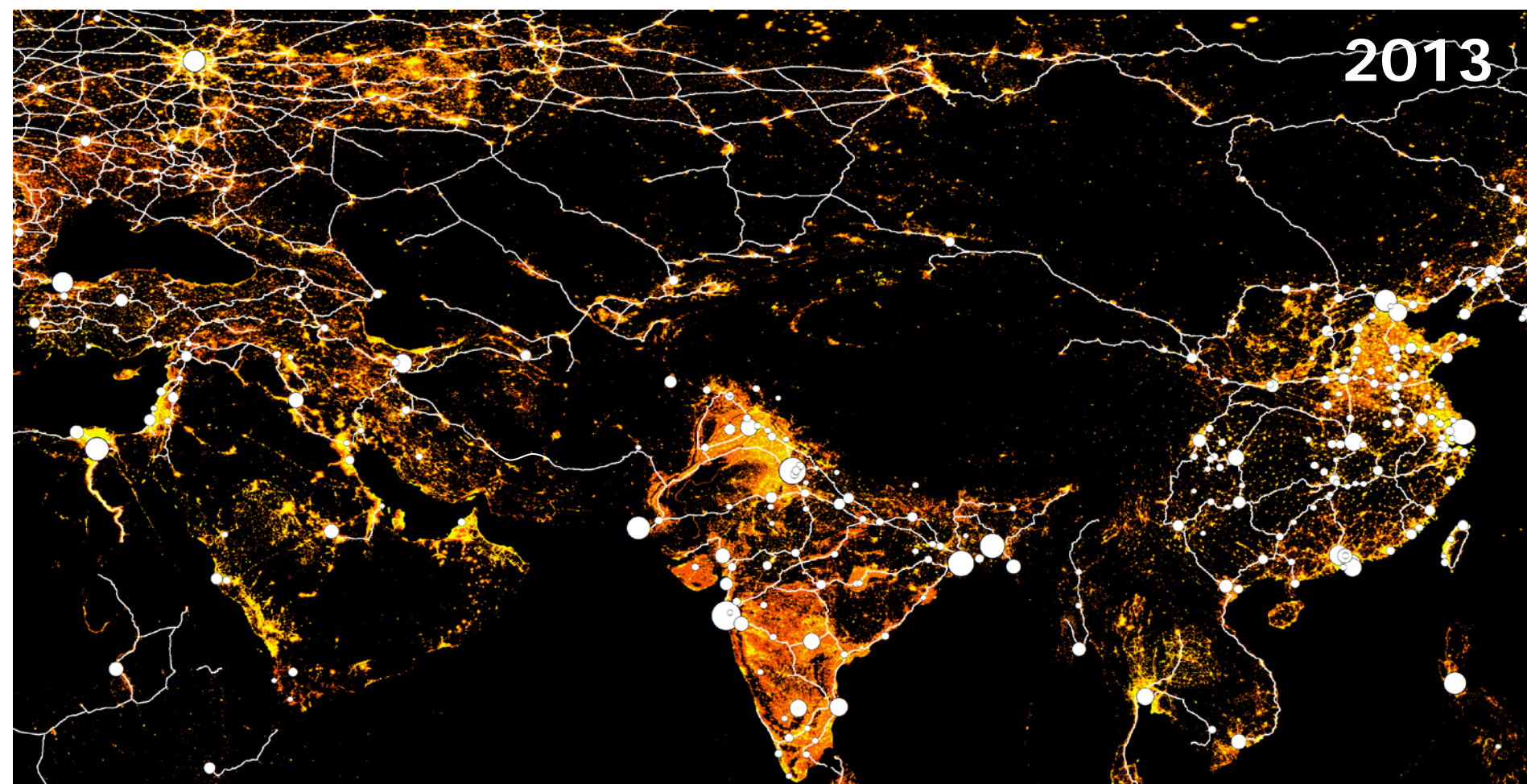
Source: Defense Meteorological Satellite Program, based on TEPAV Analysis

What do we talk about when we talk about One Belt One Road?



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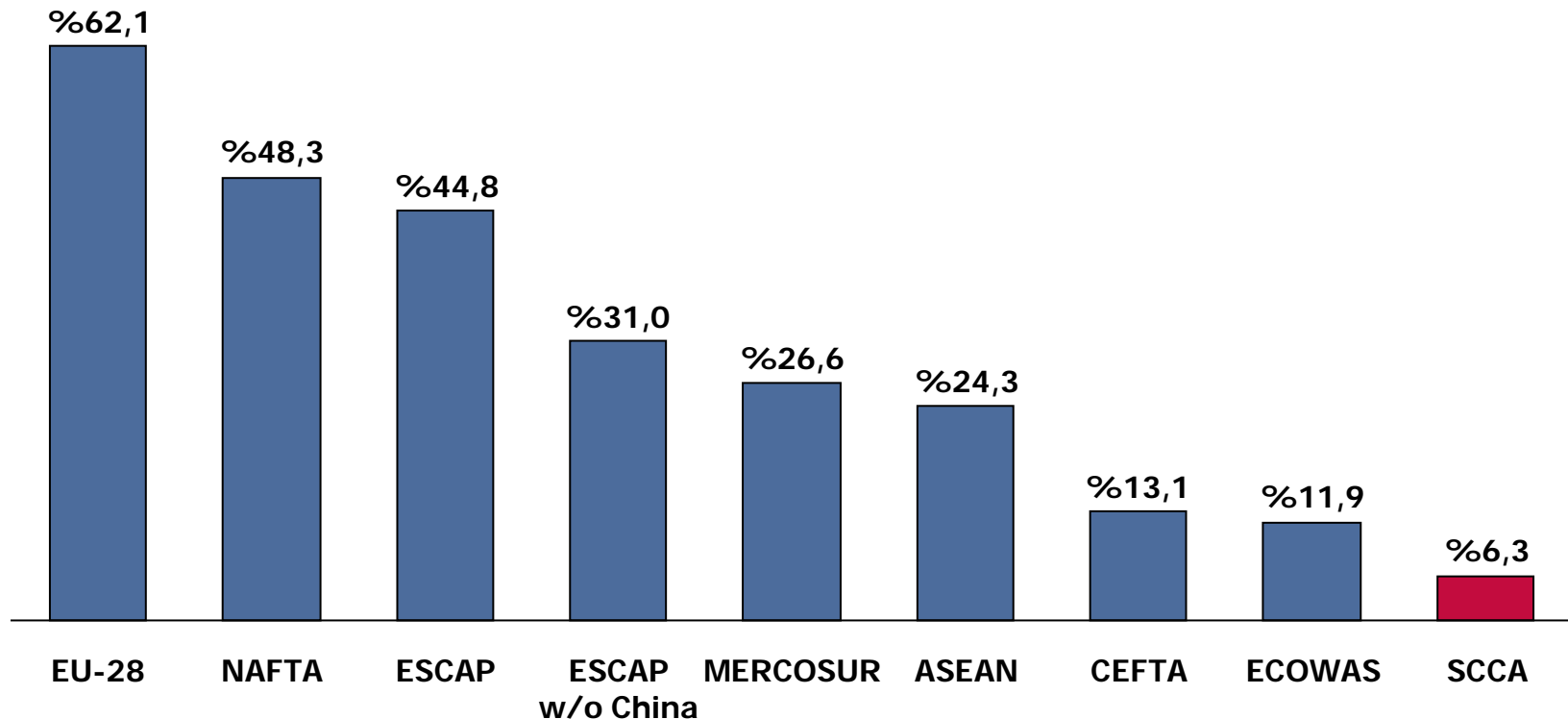
What do we talk about when we talk about One Belt One Road?



Source: Defense Meteorological Satellite Program, based on TEPAV Analysis

SCCA's level of regional economic integration is even lower than Western Africa's

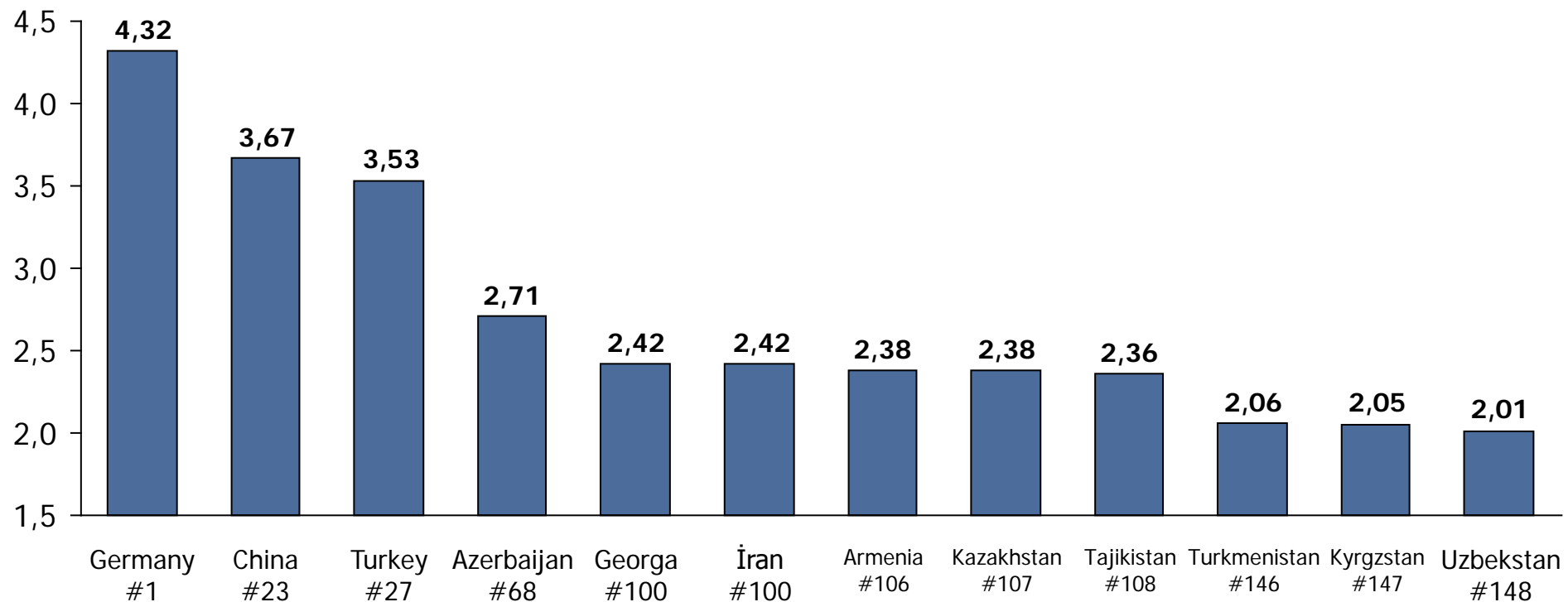
Share of intra-regional trade on total trade, 2013



“Hardware” issues

Infrastructure connecting East to West is inadequate

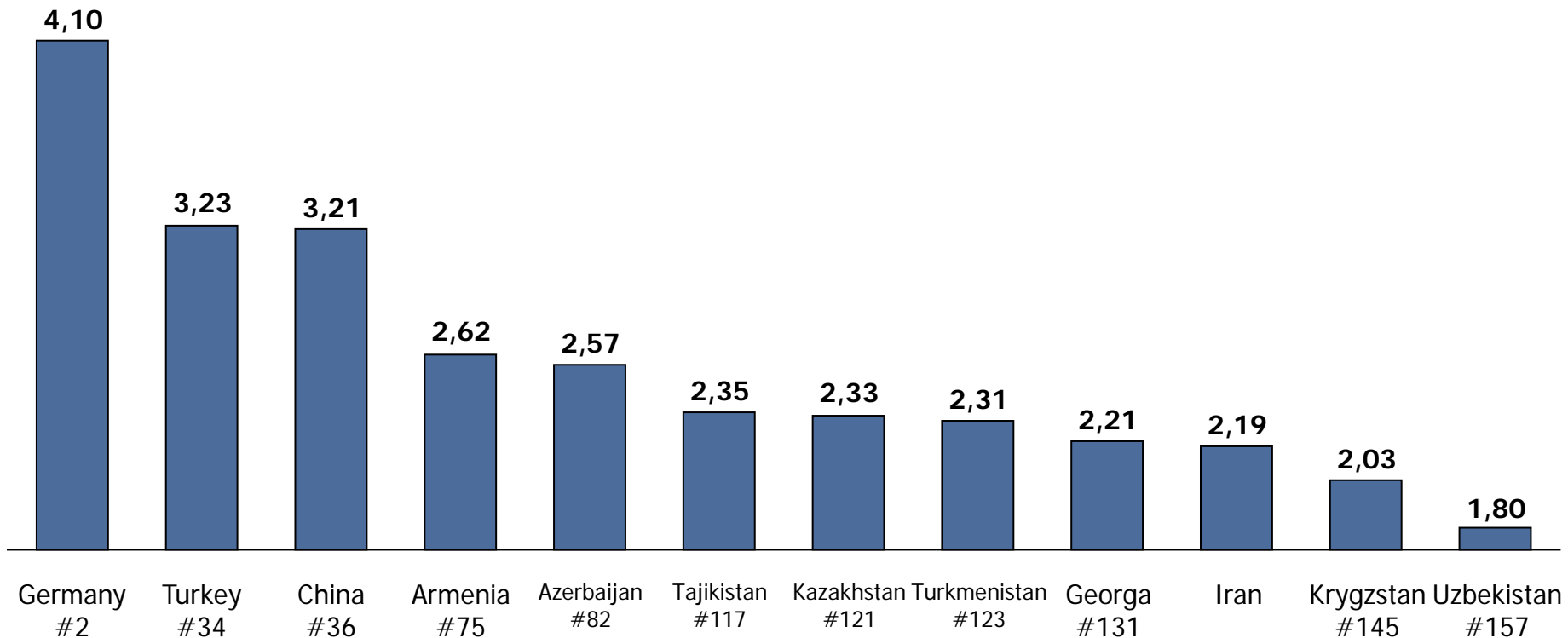
Silk Road countries' quality of trade and transport infrastructure (2014)



“Software” issues

Trade facilitation through regulatory integration

Efficiency of customs and border management (2014)



Outcomes of Antalya G20 Summit

- developed ambitious country-specific investment strategies
- To improve our investment preparation, prioritization and execution processes,
 - developed guidelines and best practices for public-private-partnership (PPP) models.
 - we call on our Ministers to continue their work to
 - improve the investment ecosystem, promote long-term financing,
 - foster institutional investors' involvement,
 - support the development of alternative capital market instruments and asset-based financing models,
 - encourage Multilateral Development Banks (MDBs) to mobilize their resources, optimize their balance sheets,
 - catalyze private sector funding
- unlock the ways and means for countries to better prepare, prioritize and finance infrastructure projects.
 - Global Infrastructure Hub

China G20 priorities

- G20 should ask multilateral development banks to take joint actions to support infrastructures investment.
 - The Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) and other new institutions should also play a role in complementing the existing multilateral development system.
- explore diversified and innovative financing approaches,
 - such as PPP, capital market, institutional investor, etc. (continuity from G20 Turkey)
- further promote global infrastructure connectivity, and amplify the positive externality of infrastructure as a public good

Infrastructure project cycle and supporting ecosystem (An application to OBOR)

Question: How to catalyze private money into infrastructure investments?

Project preparation and evaluation

Financing

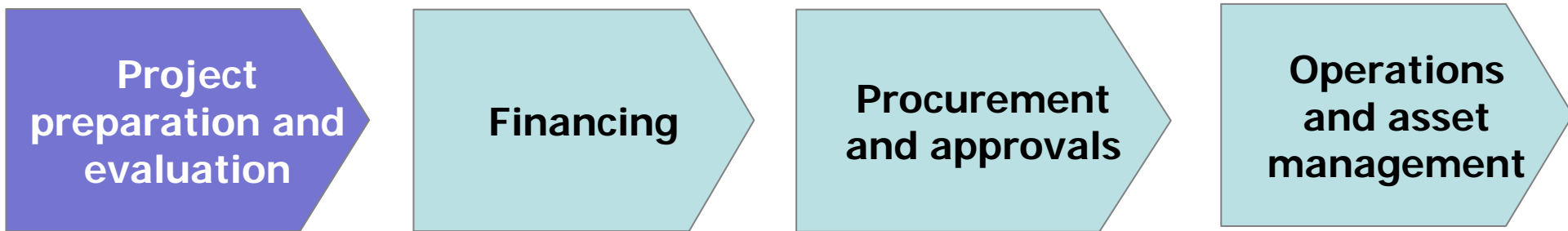
Procurement and approvals

Operations and asset management

National infrastructure investment strategies

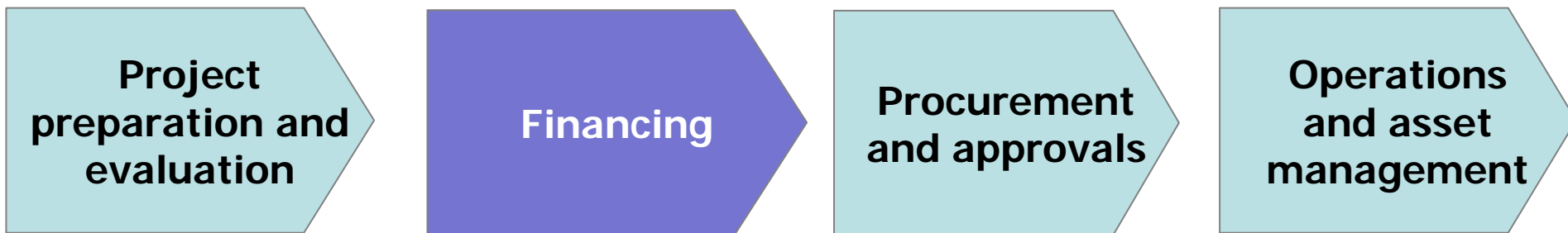
Soft infrastructure: trade facilitation

Project preparation and evaluation



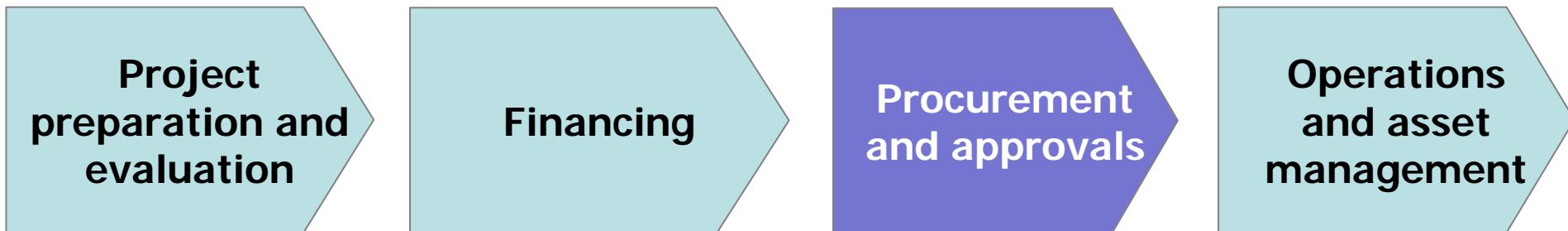
- Infrastructure project preparation facilities
 - Financing model: No recovery / cost plus margin / equity recovery
 - Project selection: Financial returns / economic returns
 - Partners: AIIB, OBOR fund, public- and private-sector players

Financing



- Political risk insurance
 - Risks: Expropriation, breach of contract, currency risks, etc.
 - Establish a new vehicle to coordinate with existing providers
 - Partner with local governments to reduce uncertainty about national political decisions, and adopt a comprehensive approach to transnational infrastructure project management

Procurement and approvals



- Common standards and a digital platform for procurement
 - best value v low cost: project development costs can vary by a factor of two to three across countries
 - Global Infrastructure Hub: digital platform for procurement to create transparency and consistency in procurement processes

National infrastructure investment strategies

Project
preparation and
evaluation

Financing

Procurement
and approvals

Operations
and asset
management

National infrastructure investment strategies

- Greenfield project pipelines
 - Public and private
- Country papers discussing current status of relevant national and cross-country infrastructure, regional integration potential, challenges, regulations

Trade facilitation

**Project
preparation and
evaluation**

Financing

**Procurement
and approvals**

**Operations
and asset
management**

Soft infrastructure: trade facilitation

- “Single Window” approach
- Expand pre-arrival processing
- Improve transparency and predictability of the advance-ruling mechanism
- Develop digital systems in order to enhance electronically executed operations and improve risk assessment

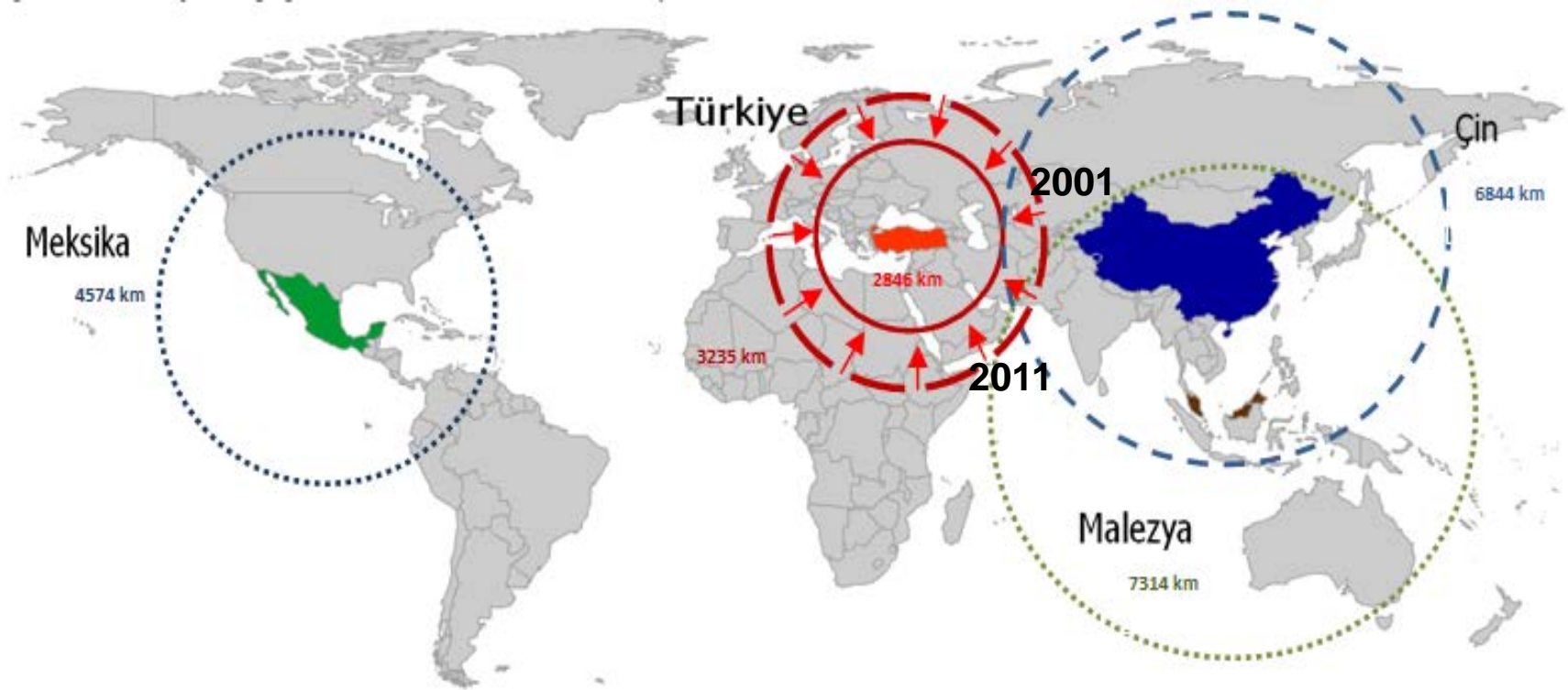
Turkey's PPP-based border gate modernizations

- Fast crossing: IRU TIR-EPD (Pilot: Kapikule to Bulgaria since Nov 2012)
- NEXT PROJECT: Single window (w Georgia)



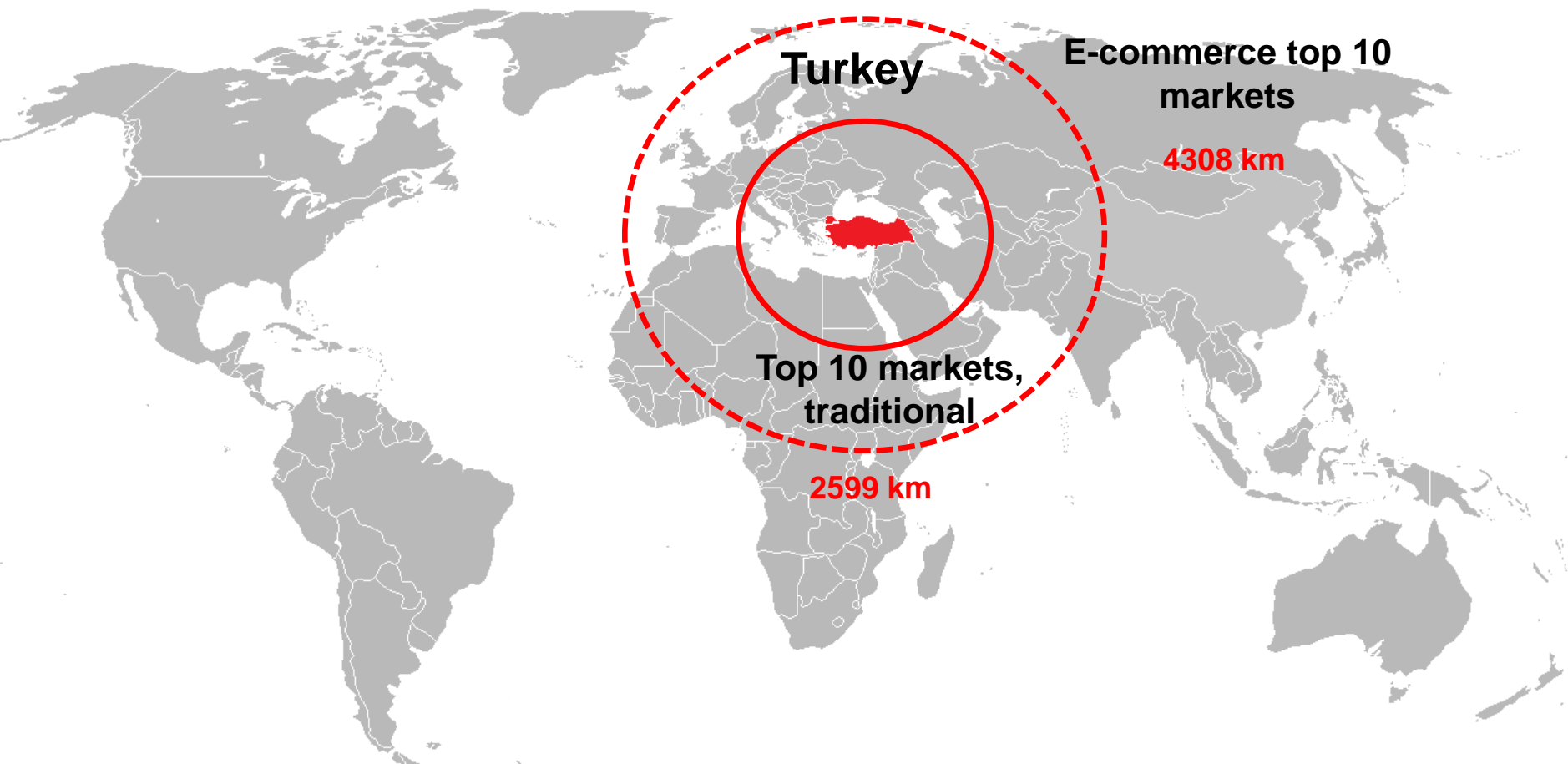
The problem with Turkey's average export distance

Türkiye ve çeşitli ülkelerin ihracat menzilleri, 2011



Seizing the opportunity: E-export can overcome obstacles of distance and size

The average export range of Turkey: Traditional vs. E-commerce



E-export recommendations

- Cross-border e-commerce
 - one-contact information centers to provide support around legislation issues concerning cross-border e-commerce
 - improve custom procedures with a direct focus on e-commerce
- Current trade infrastructure and legislations are based on B2B commerce/ B2C commerce requires reforms across all levels (SEZ approach)
 - Customs regulations
 - Payment systems
 - Returns...
 - Taxes

The Caspian Crossing

How to open the lines to competition?



Line	Cost (per mile)
Mersin – Trieste	\$1.03
Pendik – Toulon	\$1.16
Baku – Aktau	\$5.07
Baku – Turkmenb.	\$10.24

Issues:

1. Lack of stable and scheduled lines accross the Caspian
2. Overpricing of the existing lines

Conclusions

- Infrastructure connectivity is critical for both Turkey and China
- China G20 Presidency
 - will build on the ground work by the Turkish presidency
 - shift the focus to connectivity and externalities
- OBOR is an excellent piloting opportunity
 - Infrastructure eco-system development
 - Software issues
 - Establishing institutions to start pilots asap

Conflict resolution: Routes over the South Caucasus in the Middle Corridor

